



Financial Statements
June 30, 2022

Newport-Mesa Unified School District

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	4
Government Wide Financial Statements	
Statement of Net Position	15
Statement of Activities.....	16
Government Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Fund Financial Statements	
Statement of Net Position – Proprietary Funds.....	23
Statement of Revenues, Expenses, and Change in Fund Net Position – Proprietary Funds	24
Statement of Cash Flows – Proprietary Funds.....	25
Fiduciary Fund Financial Statements	
Statement of Net Position – Fiduciary Funds	26
Statement of Changes in Net Position – Fiduciary Funds	27
Notes to Financial Statements.....	28
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	67
Schedule of Changes in the District’s Total OPEB Liability and Related Ratios	68
Schedule of the District’s Proportionate Share of the Net OPEB Liability – MPP Program.....	69
Schedule of the District’s Proportionate Share of the Net Pension Liability	70
Schedule of the District’s Contributions	71
Notes to Required Supplementary Information	72
Supplementary Information	
Schedule of Expenditures of Federal Awards	74
Local Education Agency Organization Structure.....	76
Schedule of Average Daily Attendance.....	77
Schedule of Instructional Time	78
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	79
Schedule of Financial Trends and Analysis	80
Combining Balance Sheet – Non-Major Governmental Funds	81
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds.....	82
Notes to Supplementary Information.....	83

Independent Auditor's Reports

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 85

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance..... 87

Independent Auditor's Report on State Compliance..... 90

Schedule of Findings and Questioned Costs

Summary of Auditor's Results..... 95

Financial Statement Findings 97

Federal Awards Findings and Questioned Costs..... 98

State Compliance Findings and Questioned Costs..... 100

Summary Schedule of Prior Audit Findings..... 107

Management Letter 111



Independent Auditor's Report

To the Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net OPEB liability – MPP program, schedule of the District's proportionate share of the net pension liability, and schedule of the District's contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial

statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Rancho Cucamonga, California
February 24, 2023



This section of Newport-Mesa Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2022, with comparative information for the year ending June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The Government-Wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) deferred outflows of resources, as well as all liabilities (including long-term liabilities), and deferred inflows of resources. Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Governmental-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

- The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.
- The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's operating results. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

All of the District's services are reported in governmental activities. This includes the education of transitional kindergarten through grade twelve students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education and the California Department of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following the governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses, and Change in Fund Net Position. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for community facility district (CFD) activities. The District's fiduciary activities are reported in the Statement of Net Position and Statement of Changes in Net Position. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

The 2021-2022 year began largely as a recovery from COVID-19. The federal and state governments launched a myriad of funding streams and new mandates to combat the impacts of the virus, which touched all aspects of the District's instructional programs, operations, and finances. This made for a very challenging year of implementing new programs, safety measures, and monitoring regimens. Although it was feared that the District's property tax base would take a hit, thankfully, the housing market remained robust. Consequently, the District finished 2021-2022 in strong fiscal shape, albeit somewhat divergent from what was expected at the beginning of the year.

The Statement of Net Position represents the District's financial net worth. The District's financial net worth consists of everything the District owns (land, buildings, cash etc.) less District obligations. A positive balance is good; a negative balance reflects that the District owes more than available resources, effective on the date of the report. Before GASB issued Statements 68, 71 and 75, the District had a substantial positive Net Position Statement. After the inclusion of pension and OPEB liabilities, the District's Net Position turned negative.

The District has very little control over the pension liability. The factors driving the pension liability are determined by the State. As such, the only control the District has to reduce the pension liability is to either eliminate staff or fund the liability. Wall Street analysts recognize the District has no control over pension liabilities. Consequently, Moody's Investors Services in 2022 bestowed its second highest credit rating to the District. A high credit rating is valuable to the community and allows the Board to fulfill its objective of enriching the community; in the last general obligation bond debt offering the Board saved the District taxpayers over \$140M due to its high credit rating.

In contrast to the pension liability, the Board of Education has some flexibility to impact OPEB liability with cost management through health & welfare plan design and/or liability advance funding. Cost management through plan design may include increased cost shifting to employees and retirees, separately underwriting retirees from current employees to eliminate the implicit subsidy, increasing the length of time employees must work to be eligible, capping the District's total cost exposure, imposing higher levels of managed care, and/or shifting in whole or in part to a defined contribution instead of a defined benefit plan. The other option available to manage cost is by pre-funding the liability with irrevocable contributions. Irrevocable contributions are allocated on a full-time equivalent basis, across all restricted and unrestricted programs.

In anticipation of the need to fund OPEB liability, the Board of Education passed resolution #33-03-05 on March 8, 2005 creating a Special Reserve/Retiree Benefit fund for the purpose of accumulating monies for OPEB liability. This fund is used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of OPEB but has not contributed irrevocably to a separate trust for OPEB. These funds are only earmarked for OPEB purposes and therefore, revocable. Consequently, this balance is not credited towards funding OPEB liability and therefore does not reduce the District's liability as presented on its Net Position Statement.

The District's choice to earmark funding rather than irrevocably dedicating funds to OPEB liabilities has provided flexibility for the Board of Education to pursue substantial long-term high priority projects including air conditioning and curriculum updates. Beginning in 2022-2023, the District will begin making irrevocable OPEB contributions. GASB Statement 75 cost assumptions have slightly increased the District's OPEB liability, from \$130,302,900 in 2020-2021 to \$141,006,012 in 2021-2022. Given the liability is substantial, it is incumbent upon the District to consider a proactive, measured approach to resolving this unfunded liability.

The District has seen a slowing in revenue as well as expenditures. Year over year decreases from 2020-2021 to 2021-2022 for revenue and expenses are 1.7% and 21.8%, respectively. The decrease reflects the spike in one-time funding as well as expenses related to the COVID-19 response. Adjustments will be implemented on a going forward basis to bring revenue and expenditure rates of growth into alignment.

Overall the district's financial performance flexed to meet changing needs reflecting dramatic changes to health and safety constraints. The district began 2021-2022 with substantial uncertainty. Fortunately, ample federal and state resources have supported the district's response. In addition, stout property values have positioned the district to address the long-term needs of its students and community that have been brought about by unprecedented challenges associated with the virus. The District expects to maintain its level of significant programs and services. This is a direct result of the Board of Education's fiscal prudence and foresight.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(101,913,873) for the fiscal year ended June 30, 2022. Of this amount, \$(311,131,276) was unrestricted (deficit). Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the School Board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1 - Net Position) and change in net position (Table 2 - Changes in Net Position) of the District's governmental activities.

Table 1

	Governmental Activities	
	2022	2021
Assets		
Current and other assets	\$ 313,380,778	\$ 268,814,993
Capital assets	327,763,992	347,901,835
Total assets	641,144,770	616,716,828
Deferred outflows of resources	100,581,535	98,934,181
Liabilities		
Current liabilities	26,713,577	27,413,650
Long-term liabilities other than OPEB and pension	364,569,975	365,512,533
Net other postemployment benefit (OPEB) liability	117,524,574	132,087,079
Aggregate net pension liability	191,971,086	351,094,121
Total liabilities	700,779,212	876,107,383
Deferred inflows of resources	142,860,966	21,517,436
Net Position		
Net investment in capital assets	125,534,921	137,502,024
Restricted	84,146,199	70,863,559
Unrestricted (deficit)	(311,594,993)	(390,339,393)
Total net position (deficit)	\$ (101,913,873)	\$ (181,973,810)

The \$(311,131,276) in unrestricted (deficit) net position represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements- increased by 20.3% from \$(390,339,393) in 2021.

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities on page 16. Table 2 takes the information from the statement and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2022	2021
Revenues		
Program revenues		
Charges for services and sales	\$ 982,208	\$ 1,554,579
Operating grants and contributions	90,496,075	75,538,568
Capital grants and contributions	(390,393)	8,891,711
General revenues		
Federal and State aid not restricted	14,496,044	16,008,175
Property taxes	322,965,826	311,134,126
Other general revenues	217,703	23,103,718
Total revenues	428,767,463	436,230,877
Expenses		
Instruction-related	197,392,321	285,595,704
Pupil services	31,556,018	38,279,926
Administration	24,113,953	26,708,169
Plant services	40,217,498	43,653,085
All other services	55,427,736	51,492,683
Total expenses	348,707,526	445,729,567
Change in net position	\$ 80,059,937	\$ (9,498,690)

Governmental Activities

As reported in the Statement of Activities on page 16, the cost of all of our governmental activities this year was \$348,707,526.

The Change in Net Position represents the total expense less:

1. The costs paid by those who benefited from the programs (\$982,208).
2. By other governments and organizations who subsidized certain programs with grants and contributions (\$104,601,726).
3. Property tax collections from local taxpayers (\$322,965,826); and
4. Other locally generated revenues (\$217,703).

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, including special instruction programs and other instructional programs, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost of Services	
	2022	2021	2022	2021
Instruction-related	\$ 197,392,321	\$ 285,595,704	\$ (137,106,253)	\$ (219,792,466)
Pupil services	31,556,018	38,279,926	(16,706,247)	(27,459,397)
Administration	24,113,953	26,708,169	(18,162,864)	(23,456,004)
Plant services	40,217,498	43,653,085	(39,397,744)	(41,879,317)
All other services	55,427,736	51,492,683	(46,246,528)	(47,157,525)
Total	\$ 348,707,526	\$ 445,729,567	\$ (257,619,636)	\$ (359,744,709)

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$269,998,272, which is an increase of \$44,341,527 from last year (Table 4 - Governmental District Funds).

Table 4

Governmental Fund	Balances and Activity			
	July 01, 2021	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2022
General	\$ 120,051,111	\$ 411,872,725	\$ 387,792,143	\$ 144,131,693
Student Activity	1,490,182	4,136,270	4,110,509	1,515,943
Child Development	704,978	3,450,192	3,298,714	856,456
Cafeteria	449,620	9,387,630	9,153,559	683,691
Building	27,984,872	(120,008)	250,991	27,613,873
Capital Facilities	10,467,189	782,510	126,977	11,122,722
County School Facilities	31,770,455	(390,393)	-	31,380,062
Special Reserve Fund for Capital Outlay Projects	19,858,320	22,126,057	2,414,773	39,569,604
Bond Interest and Redemption	12,880,018	15,050,562	14,806,352	13,124,228
Total	\$ 225,656,745	\$ 466,295,545	\$ 421,954,018	\$ 269,998,272

The increase in the combined fund balance can be attributed to an increase of \$24,080,582 and \$19,711,284 within the General Fund and Special Reserve Fund for Capital Outlay Projects, respectively.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 22, 2021. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 67.) The District experienced a total fund balance increase of \$37,276,396 million between its final budget and actuals. This increase can be attributed to favorable property tax, federal, other state and local support. Drivers of the variances include the following:

- The District enjoys strong community financial support which accumulates over the course of the year resulting in large revenue budget variances between original and final budgets.
- Budgeted expenditures reflect a spend-every-dollar assumption which does not occur on an actual basis resulting in favorable expenditure budget variances.
- Substantial property tax revenue was realized throughout the year which was undeterminable at the time the budget was published.
- Recognition of COVID-19 related Federal funding.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2022, the District had \$327,763,992 in a broad range of capital assets, including land, buildings, and furniture and equipment based on historical value. This amount represents a net decrease (including additions, deductions, and depreciation) of \$20,137,843, or 5.8%, from last year.

	Governmental Activities	
	2022	2021
Land and construction in progress	\$ 57,249,840	\$ 57,744,503
Land improvements	53,506,026	57,882,342
Buildings and improvements	206,283,053	221,581,028
Furniture and equipment	10,725,073	10,693,962
Total	\$ 327,763,992	\$ 347,901,835

Several capital projects are planned for the 2022-2023 year. Additional detail regarding capital assets is provided in Note 4 to the financial statements.

Long-Term Liabilities

At the end of this year, the District had \$674,065,635 in outstanding debt versus \$848,693,733 last year, a decrease of 20.6%. The decrease can be attributed to decreases in aggregate net pension liability and net OPEB liability. The District's outstanding long-term liabilities at year-end consisted of:

Table 6

	Governmental Activities	
	2022	2021
Long-Term Liabilities		
General obligation bonds	\$ 341,159,951	\$ 339,490,644
California energy commission loan	428,574	857,145
Unamortized premium	7,976,803	8,812,810
Finance purchase agreement	28,574	44,814
Compensated absences	4,929,098	4,200,070
Claims liability	10,046,975	12,107,050
Net OPEB liability	117,524,574	132,087,079
Aggregate net pension liability	191,971,086	351,094,121
Total	\$ 674,065,635	\$ 848,693,733

The Moody Corporation studied the District's finances in June of 2022 and assigned its second highest rating, “Aa1” to the District. The Aa1 rating reflects the District's exceptionally strong tax base, its prudent fiscal policy, and reserve levels. The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$341,159,951 is significantly below this statutorily-imposed limit.

Other obligations include California energy commission loan, finance purchase agreement, compensated absences and claims liability. We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2021-2022 ARE NOTED BELOW:

Following the guidelines provided in the District's strategic plan, District staff has made significant achievements in 2021-2022. Just a few of those achievements are listed below:

- The U.S. News and World Report's 2022 Best High School recognized Corona Del Mar and Newport Harbor in the top 500 in California Rankings. This poll took into consideration six factors: (1) college readiness, (2) reading and math proficiency, (3) reading and math performance, (4) underserved student performance, (5) college curriculum breadth and (6) graduation rates.

- Costa Mesa High School students successfully defended their first-place title in the National Engineering Design Competition (NEDC): Designing for Equity in Your Community. The competition was part of a series of regional Science, Technology, Engineering, and Math (STEM) competitions hosted by Math Engineering Science Achievement (MESA). MESA is a college and career preparation organization that encourages student diversity and achievement in science, technology, engineering, and math. The competitions provide hands-on experience which help students in their pursuit of STEM fields in higher education. Students also have opportunities to obtain grants, receive technical resources, launch mentoring programs, and obtain scholarships.
- Estancia High School (EHS) Career Technical Education (CTE) Patient Care Pathway students placed in the top 10 at the State Leadership Conference, competing against 45,000 students. The Estancia Patient Care Pathway program combines academic and hands-on learning to inspire students to pursue a full range of career opportunities in the health science and medical technology industry sector. Students learn medical terms and abbreviations, disease processes and common disorders and much more. As part of the program, students are able to join HOSA, an organization providing leadership development as well as knowledge and skill development for future healthcare professionals.
- In conjunction with Mental Health Awareness Month, the District hosted a virtual Mental Health and Wellness Fair to provide an overview of services available to families through various community partners. Additional webinars focused on Social Emotional Learning and Building Resiliency through Coping Strategies. The District also hosted a virtual 5K to bring awareness to the topic of Mental Health.
- Newport-Mesa Unified School District (NMUSD) received four Awards of Excellence from the California School Public Relations Association (CalSPRA). The CalSPRA Awards program recognizes achievement in high-quality communications and public relations programs statewide. The communications team is dedicated to creatively using communication platforms to further meaningful communications and engage constituents. A district-wide maintenance master plan was developed which outlines anticipated maintenance and upgrade projects for future years, based on priority factors, as well as direction from the Board of Education and district leadership.

Due to the financial prudence and foresight of the District's Board of Education, the District has been able to maintain its level of significant programs and services and still remain on a sound financial footing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Since the start of the pandemic, the State's fiscal outlook has brightened substantially. As of the Governor's 2022-2023 May Revision budget, revenues are up nearly \$50 billion from the previous January's budget. This unprecedented growth over the past two years is driven by California's "big three" taxes (personal income, corporations, and sales), which in total grew 30% in 2020-2021 and another 20% in 2021-2022. Of course, the District stands to benefit from the State's good fortune.

Unfortunately, the Governor did not include pension rate relief and funding for Universal Transitional Kindergarten (UTK). The denial of UTK funding is particularly disappointing. The denial is based on the District's Community Funded status, not on the needs of students but rather where they live. At full implementation UTK will cost \$10.5 million per year to administer. Also, it is estimated that UTK facilities will cost \$15 million.

Although there is hope the Governor will change his mind on UTK funding, this budget assumes he will not. Sadly, the lack of funding over the long run will directly lead to the reduction of student support services for the District students.

Recent events including the rise of interest rates and the Ukrainian conflict's impact on the supply chain portend the boom is unlikely to continue. Add to this the one-time nature of the funding the District has received, and you end up with considerable uncertainty and a mix of numerous funding sources with varying life spans which complicate the operation of a consistent ongoing program. Despite the economic uncertainty and the challenge of melding multiple funding streams into a consistent program, the district is well positioned to deliver.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Chief Business Official at 2985 Bear Street, Building A, Costa Mesa, California 92626-4300.

Newport-Mesa Unified School District
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets	
Deposits and investments	\$ 291,035,001
Receivables	21,907,140
Prepaid expense	88,354
Stores inventories	350,283
Capital assets not depreciated	57,249,840
Capital assets, net of accumulated depreciation	270,514,152
Total assets	641,144,770
Deferred Outflows of Resources	
Deferred charge on refunding	11,373,846
Deferred outflows of resources related to OPEB	23,162,207
Deferred outflows of resources related to pensions	66,045,482
Total deferred outflows of resources	100,581,535
Liabilities	
Accounts payable	21,627,086
Interest payable	1,939,835
Unearned revenue	3,146,656
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	13,047,878
Long-term liabilities other than OPEB and pensions due in more than one year	351,522,097
Net other postemployment benefit (OPEB) liability	117,524,574
Aggregate net pension liability	191,971,086
Total liabilities	700,779,212
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	5,455,593
Deferred inflows of resources related to pensions	137,405,373
Total deferred inflows of resources	142,860,966
Net Position	
Net investment in capital assets	125,534,921
Restricted for	
Debt service	11,184,393
Capital projects	42,966,501
Educational programs	18,569,563
Other activities	11,425,742
Unrestricted (deficit)	(311,594,993)
Total net position (deficit)	\$ (101,913,873)

Newport-Mesa Unified School District
Statement of Activities
Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities					
Instruction	\$ 157,748,047	\$ 145,469	\$ 49,435,118	\$ (390,393)	\$ (108,557,853)
Instruction-related activities					
Supervision of instruction	15,699,563	27,719	8,174,773	-	(7,497,071)
Instructional library, media, and technology	3,840,736	203	526,886	-	(3,313,647)
School site administration	20,103,975	7,174	2,359,119	-	(17,737,682)
Pupil services					
Home-to-school transportation	6,090,528	248	45,714	-	(6,044,566)
Food services	7,814,978	25,569	8,653,076	-	863,667
All other pupil services	17,650,512	34,814	6,090,350	-	(11,525,348)
Administration					
Data processing	9,572,524	-	1,278,511	-	(8,294,013)
All other administration	14,541,429	2,074	4,670,504	-	(9,868,851)
Plant services	40,217,498	43,554	776,200	-	(39,397,744)
Ancillary services	7,265,687	28,820	4,323,540	-	(2,913,327)
Enterprise services	(25,750)	-	-	-	25,750
Interest on long-term liabilities	16,770,333	-	-	-	(16,770,333)
Other outgo	3,285,885	666,564	4,162,284	-	1,542,963
Depreciation (unallocated)	28,131,581	-	-	-	(28,131,581)
Total governmental activities	\$ 348,707,526	\$ 982,208	\$ 90,496,075	\$ (390,393)	(257,619,636)
General Revenues and Subventions					
Property taxes, levied for general purposes					307,139,840
Property taxes, levied for debt service					15,011,527
Taxes levied for other specific purposes					814,459
Federal and State aid not restricted to specific purposes					14,496,044
Interest and investment earnings					(2,496,157)
Miscellaneous					2,713,860
Subtotal, general revenues and subventions					337,679,573
Change in Net Position					80,059,937
Net Position - Beginning					(181,973,810)
Net Position - Ending					\$ (101,913,873)

Newport-Mesa Unified School District
Balance Sheet – Governmental Funds
June 30, 2022

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	\$ 168,699,016	\$ 27,606,177	\$ 17,819,500	\$ 58,248,612	\$ 272,373,305
Receivables	18,634,172	15,145	10,267	3,237,244	21,896,828
Due from other funds	1,838,765	-	22,300,000	170,193	24,308,958
Prepaid expenditures	88,354	-	-	-	88,354
Stores inventories	158,146	-	-	192,137	350,283
Total assets	<u>\$ 189,418,453</u>	<u>\$ 27,621,322</u>	<u>\$ 40,129,767</u>	<u>\$ 61,848,186</u>	<u>\$ 319,017,728</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 20,093,098	\$ 7,449	\$ 560,163	\$ 905,097	\$ 21,565,807
Due to other funds	22,470,193	-	-	1,836,800	24,306,993
Unearned revenue	2,723,469	-	-	423,187	3,146,656
Total liabilities	<u>45,286,760</u>	<u>7,449</u>	<u>560,163</u>	<u>3,165,084</u>	<u>49,019,456</u>
Fund Balances					
Nonspendable	396,500	-	-	192,137	588,637
Restricted	18,569,563	27,613,873	463,717	58,490,965	105,138,118
Assigned	107,273,130	-	39,105,887	-	146,379,017
Unassigned	17,892,500	-	-	-	17,892,500
Total fund balances	<u>144,131,693</u>	<u>27,613,873</u>	<u>39,569,604</u>	<u>58,683,102</u>	<u>269,998,272</u>
Total liabilities and fund balances	<u>\$ 189,418,453</u>	<u>\$ 27,621,322</u>	<u>\$ 40,129,767</u>	<u>\$ 61,848,186</u>	<u>\$ 319,017,728</u>

Newport-Mesa Unified School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2022

Total Fund Balance - Governmental Funds		\$ 269,998,272
<p>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
The cost of capital assets is	\$ 687,349,102	
Accumulated depreciation is	<u>(359,585,110)</u>	
Net capital assets		327,763,992
<p>In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.</p>		
		(1,939,835)
<p>An internal service fund is used by management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities in the statement of net position.</p>		
		8,561,789
<p>Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to</p>		
Deferred charge on refunding	11,373,846	
Net other postemployment benefits (OPEB) liability	23,162,207	
Aggregate net pension liability	<u>66,045,482</u>	
Total deferred outflows of resources		100,581,535
<p>Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to</p>		
Net other postemployment benefits (OPEB) liability	(5,455,593)	
Aggregate net pension liability	<u>(137,405,373)</u>	
Total deferred inflows of resources		(142,860,966)
<p>Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.</p>		
		(191,971,086)

Newport-Mesa Unified School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2022

The District's net OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.	\$ (117,524,574)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
General obligation bonds	\$ (232,782,839)
Unamortized premium on bonds	(7,976,803)
Finance purchase agreement	(28,574)
Compensated absences (vacations)	(4,929,098)
California energy commission loan	(428,574)
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	(108,377,112)
Total long-term liabilities	(354,523,000)
Total net position (deficit) - governmental activities	\$ (101,913,873)

Newport-Mesa Unified School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2022

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local Control Funding Formula	\$ 317,312,748	\$ -	\$ -	\$ -	\$ 317,312,748
Federal sources	26,056,329	-	-	8,612,019	34,668,348
Other State sources	60,978,851	-	-	3,697,466	64,676,317
Other local sources	7,524,797	(342,113)	(173,943)	19,675,356	26,684,097
Total revenues	411,872,725	(342,113)	(173,943)	31,984,841	443,341,510
Expenditures					
Current					
Instruction	202,507,477	-	-	2,595,155	205,102,632
Instruction-related activities					
Supervision of instruction	19,037,949	-	-	319,245	19,357,194
Instructional library, media, and technology	4,589,382	-	-	-	4,589,382
School site administration	25,443,772	-	-	140,438	25,584,210
Pupil services					
Home-to-school transportation	7,105,967	-	-	-	7,105,967
Food services	8,278	-	-	8,843,736	8,852,014
All other pupil services	22,900,926	-	-	-	22,900,926
Administration					
Data processing	10,592,645	-	-	-	10,592,645
All other administration	15,885,221	-	-	528,554	16,413,775
Plant services	45,450,160	-	-	43,859	45,494,019
Ancillary services	3,908,813	-	-	4,110,509	8,019,322
Other outgo	3,285,885	-	-	-	3,285,885
Enterprise services	(448)	-	-	-	(448)
Facility acquisition and construction	4,327,946	250,991	1,753,988	102,281	6,435,206
Debt service					
Principal	16,240	-	428,571	10,730,000	11,174,811
Interest and other	-	-	10,109	4,082,334	4,092,443
Total expenditures	365,060,213	250,991	2,192,668	31,496,111	398,999,983
Excess (Deficiency) of Revenues Over Expenditures	46,812,512	(593,104)	(2,366,611)	488,730	44,341,527
Other Financing Sources (Uses)					
Transfers in	-	222,105	22,300,000	431,930	22,954,035
Transfers out	(22,731,930)	-	(222,105)	-	(22,954,035)
Net Financing Sources (Uses)	(22,731,930)	222,105	22,077,895	431,930	-
Net Change in Fund Balances	24,080,582	(370,999)	19,711,284	920,660	44,341,527
Fund Balance - Beginning	120,051,111	27,984,872	19,858,320	57,762,442	225,656,745
Fund Balance - Ending	<u>\$ 144,131,693</u>	<u>\$ 27,613,873</u>	<u>\$ 39,569,604</u>	<u>\$ 58,683,102</u>	<u>\$ 269,998,272</u>

Newport-Mesa Unified School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2022

Total Net Change in Fund Balances - Governmental Funds \$ 44,341,527

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which depreciation expense exceeds capital outlays in the period.

Depreciation expense	\$ (28,131,581)
Capital outlays	<u>8,187,270</u>

Net expense adjustment	(19,944,311)
------------------------	--------------

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (193,532)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used. (729,028)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. 21,973,162

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year. 32,648,082

Governmental funds report the effect of premiums, discounts, and the deferred charge on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.

Premium amortization	836,007
Deferred charge on refunding amortization	(631,880)

Newport-Mesa Unified School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2022

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

General obligation bonds	\$ 10,730,000
California energy commission loan	428,571
Finance purchase agreement	16,240

Interest on long-term liabilities in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased by \$482,710, and second, \$12,399,307 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(12,882,017)

An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net income of the Internal Service Fund is reported with governmental activities.

3,467,116

Change in net position of governmental activities

\$ 80,059,937

Newport-Mesa Unified School District
Statement of Net Position – Proprietary Funds
June 30, 2022

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Current assets	
Deposits and investments	\$ 18,661,696
Receivables	<u>10,312</u>
Total assets	<u>18,672,008</u>
Liabilities	
Current liabilities	
Accounts payable	61,279
Due to other funds	1,965
Current portion of claims liability	<u>2,187,370</u>
Total current liabilities	<u>2,250,614</u>
Noncurrent liabilities	
Claims liability - net of current portion	<u>7,859,605</u>
Total liabilities	<u>10,110,219</u>
Net Position	
Restricted for self-insurance activities	<u><u>\$ 8,561,789</u></u>

Newport-Mesa Unified School District
Statement of Revenues, Expenses, and Change in Fund Net Position – Proprietary Funds
Year Ended June 30, 2022

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues	
Charges for services	<u>\$ 3,986,491</u>
Operating Expenses	
Payroll costs	152,990
Professional and contract services (credit)	(107,722)
Supplies and materials	4,647
Other operating cost	<u>244,516</u>
Total operating expenses	<u>294,431</u>
Operating Income	<u>3,692,060</u>
Nonoperating Revenues (Expenses)	
Fair market value adjustments	(313,293)
Interest income	<u>88,349</u>
Total nonoperating revenues (expenses)	<u>(224,944)</u>
Change in Net Position	3,467,116
Total Net Position - Beginning	<u>5,094,673</u>
Total Net Position - Ending	<u><u>\$ 8,561,789</u></u>

Newport-Mesa Unified School District
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2022

	<u>Governmental Activities - Internal Service Fund</u>
Operating Activities	
Cash received from assessments made to other funds	\$ 3,988,368
Cash payments to other suppliers of goods or services	(2,012,291)
Cash payments to employees for services	(152,990)
Other operating cash payments	<u>(244,516)</u>
Net Cash From Operating Activities	<u>1,578,571</u>
Investing Activities	
Fair market value adjustments	(313,293)
Interest on investments	<u>86,125</u>
Net Cash From Investing Activities	<u>(227,168)</u>
Net Change in Cash and Cash Equivalents	1,351,403
Cash and Cash Equivalents, Beginning	<u>17,310,293</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 18,661,696</u></u>
Reconciliation Of Operating Income To Net Cash From Operating Activities	
Operating income	\$ 3,692,060
Changes in assets and liabilities	
Receivables	1,807
Accounts payable	(55,291)
Due to other funds	70
Claims liability	<u>(2,060,075)</u>
Net Cash From Operating Activities	<u><u>\$ 1,578,571</u></u>

Newport-Mesa Unified School District
Statement of Net Position – Fiduciary Funds
June 30, 2022

	Custodial Funds	
	Community Facilities District	Flexible Benefit Accounts
Assets		
Deposits and investments	\$ -	\$ 416,007
Net Position		
Restricted for individuals, organizations, and other governments	\$ -	\$ 416,007

Newport-Mesa Unified School District
Statement of Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2022

	Custodial Funds	
	Community Facilities District	Flexible Benefit Accounts
Additions		
Contributions		
Special tax assessment	\$ 18,734	\$ -
Other revenues	-	823,507
Interest	18	22
Total contributions	18,752	823,529
Deductions		
Debt service payments	1,264,800	-
Other expenditures	31,638	686,707
Total deductions	1,296,438	686,707
Change In Fiduciary Net Position	(1,277,686)	136,822
Net Position - Beginning	1,277,686	279,185
Net Position - Ending	\$ -	\$ 416,007

Note 1 - Summary of Significant Accounting Policies**Financial Reporting Entity**

The Newport-Mesa Unified School District (the District) was unified in 1966 under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades TK-12 as mandated by the State and Federal agencies. The District operates 22 elementary schools, two middle schools, two 7-12 grade schools, two comprehensive high schools, one early college high school, one adult education school, and two alternative education centers for a total of 32 schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Newport-Mesa Unified School District, this includes general operations, food service, and student related activities of the District.

Joint Venture

The Bonita Canyon Public Facilities Financing Authority (Authority) is a joint venture formed by the City of Newport Beach, the Irvine Unified School District, and the Newport-Mesa Unified School District. The Authority's Board is comprised of two members appointed by each of the member agencies. The Authority created Community Facilities District 98-1 to finance public facilities that will benefit the properties within their boundaries. The District does not include the Authority as a component unit, as the District is not financially accountable for the Authority's activities and the Authority is not fiscally dependent on the District. Complete separate financial statements can be obtained at the Newport-Mesa Unified School District, 2985 Bear Street, Costa Mesa, California.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental Funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, Fund 20, Special Reserve Fund for Postemployment Benefits, and Fund 71, Retiree Benefit Fund are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$59,814,073 as of June 30, 2022.

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds (Measure F) and the acquisition of major governmental capital facilities and buildings.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (Education Code Section 42840).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

- **Student Activity Fund** The Student Activity Fund is used to account separately for the operating activities of the associated student body accounts that are not fiduciary in nature, including student clubs, general operations, athletics, and other student body activities.
- **Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.
- **Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Capital Project Funds The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

- **Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (Education Code Sections 17620-17626 and Government Code Section 65995 et seq.). Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981 or to the items specified in agreements with the developer (Government Code Section 66006).
- **County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State School Facilities Fund (Proposition 1D). The fund is used primarily to account for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070.10 et seq.).

Debt Service Funds The Debt Service Funds are used to account for the accumulation resources for, and the payment of, principal and interest on general long-term obligations.

- **Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Proprietary Funds Proprietary Funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

- **Internal Service Fund** Internal Service Fund may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insured workers' compensation program that is accounted for in an Internal Service Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the District and are not available to support the District's own programs. Fiduciary funds are split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The three types of trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics.

Custodial funds are used to account for resources, not in a trust, that are held by the District for other parties outside the District's reporting entity. The District's custodial funds are for the Community Facilities District No. 90-1 and for flexible benefit accounts held on behalf of employees.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities* except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the internal service fund, and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column.

- **Governmental Funds** All Governmental Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.
- **Proprietary Funds** Proprietary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of change in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

- **Fiduciary Funds** Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on general long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental-type funds when consumed rather than when purchased.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at acquisition value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; portable classrooms and structures, 25 years; equipment, five to 15 years; vehicles, 15 years.

The District records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2022.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources are reported as liabilities of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs and costs of refunding as debt service expenditures. Issuance costs, and costs of refunding, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the period the bonds are issued.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items and for OPEB related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Fund Balances - Governmental Funds

As of June 30, 2022, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, Superintendent or designee may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$84,146,199 of restricted net position, which is restricted by enabling legislation.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31 and become delinquent after November 1. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

Implementation of GASB Statement No. 87

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. No lease liabilities or lease assets were identified as of June 30, 2022. Therefore, the implementation of this standard did not have an effect on beginning net position or fund balance.

Implementation of GASB Statement No. 92

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reporting.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

The provisions of this Statement have been implemented as of June 30, 2022.

Implementation of GASB Statement No. 93

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The provisions of this Statement have been implemented as of June 30, 2022.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2022, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 272,373,305
Proprietary funds	18,661,696
Fiduciary funds	<u>416,007</u>
Total deposits and investments	<u><u>\$ 291,451,008</u></u>

Deposits and investments as of June 30, 2022, consist of the following:

Cash on hand and in banks	\$ 7,874,374
Cash with fiscal agent	508,285
Cash in revolving	150,000
Investments	<u>282,918,349</u>
Total deposits and investments	<u><u>\$ 291,451,008</u></u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the net asset value basis. The Orange County Educational Investment Pool has a daily redemption frequency period and a one-day redemption notice period.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Educational Investment Pool and short-term money market funds.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Reported Amount	Average Maturity in Days
Orange County Educational Investment Pool	\$ 282,918,349	287

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Federated Treasury Obligations Fund are rated AAA by Standard and Poor's. The District's investment in the Orange County Educational Investment Pool is not required to be rated, nor has it been rated.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk for deposits. The District's policy states that monies received and deposited with a financial institution shall be in accounts that are fully covered by Federal insurance. In addition, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2022, the District's bank balance of \$7,425,402 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging of financial institution's trust department or agent, but not in the name of the District.

Note 3 - Receivables

Receivables at June 30, 2022, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 14,106,399	\$ -	\$ -	\$ 2,279,270	\$ -	\$ 16,385,669
State Government						
Categorical aid	1,770,841	-	-	710,923	-	2,481,764
Lottery	1,140,313	-	-	-	-	1,140,313
Special education	453,601	-	-	-	-	453,601
Local Government						
Interest	100,060	15,145	10,267	35,679	10,312	171,463
Other local sources	1,062,958	-	-	211,372	-	1,274,330
Total	<u>\$ 18,634,172</u>	<u>\$ 15,145</u>	<u>\$ 10,267</u>	<u>\$ 3,237,244</u>	<u>\$ 10,312</u>	<u>\$ 21,907,140</u>

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 21,548,963	\$ -	\$ -	\$ 21,548,963
Construction in progress	36,195,540	6,434,555	(6,929,218)	35,700,877
Total capital assets not being depreciated	57,744,503	6,434,555	(6,929,218)	57,249,840
Capital assets being depreciated				
Land improvements	88,255,976	35,759	-	88,291,735
Buildings and improvements	503,581,358	6,641,383	-	510,222,741
Furniture and equipment	30,643,263	2,004,791	(1,063,268)	31,584,786
Total capital assets being depreciated	622,480,597	8,681,933	(1,063,268)	630,099,262
Total capital assets	680,225,100	15,116,488	(7,992,486)	687,349,102
Accumulated depreciation				
Land improvements	(30,373,634)	(4,412,075)	-	(34,785,709)
Buildings and improvements	(282,000,330)	(21,939,358)	-	(303,939,688)
Furniture and equipment	(19,949,301)	(1,780,148)	869,736	(20,859,713)
Total accumulated depreciation	(332,323,265)	(28,131,581)	869,736	(359,585,110)
Net depreciable capital assets	347,901,835	(13,015,093)	(7,122,750)	327,763,992
Governmental activities capital assets, net	\$ 347,901,835	\$ (13,015,093)	\$ (7,122,750)	\$ 327,763,992

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Unallocated	<u>\$ 28,131,581</u>

Note 5 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2022, between major and non-major governmental funds, and the internal service fund are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 1,836,800	\$ 1,965	\$ 1,838,765
Special Reserve Fund for Capital Outlay Projects	22,300,000	-	-	22,300,000
Non-Major Governmental Funds	170,193	-	-	170,193
Total	<u>\$ 22,470,193</u>	<u>\$ 1,836,800</u>	<u>\$ 1,965</u>	<u>\$ 24,308,958</u>

A balance of \$22,300,000 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from reimbursement of ongoing construction costs and for future projects.

A balance of \$170,193 due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from an operating contribution.

A balance of \$111,101 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from reimbursement of various operating costs, including indirect costs.

A balance of \$1,725,699 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from reimbursement of various operating costs, including indirect costs.

A balance of \$1,965 due to the General Fund from the Internal Service Fund resulted from reimbursement of health and welfare benefits costs.

Operating Transfers

Interfund transfers for the year ended June 30, 2022, consisted of the following:

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for reimbursement of construction costs related to ongoing and future capital outlay projects.	\$ 22,300,000
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for an operating contribution.	431,930
The Special Reserve Fund for Capital Outlay Projects transferred to the Building Fund for reimbursement of project costs.	<u>222,105</u>
Total	<u>\$ 22,954,035</u>

Note 6 - Accounts Payable

Accounts payable at June 30, 2022, consisted of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Salaries and benefits	\$ 9,653,093	\$ -	\$ -	\$ 607,031	\$ 14,155	\$ 10,274,279
Vendor payables	1,087,065	7,449	-	2,880	-	1,097,394
Supplies	1,539,635	-	101,372	244,067	-	1,885,074
Services	6,806,309	-	331,801	21,982	47,124	7,207,216
Construction	1,006,996	-	126,990	29,137	-	1,163,123
Total	\$ 20,093,098	\$ 7,449	\$ 560,163	\$ 905,097	\$ 61,279	\$ 21,627,086

Note 7 - Unearned Revenue

Unearned revenue at June 30, 2022, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 1,566,363	\$ -	\$ 1,566,363
State categorical aid	956,115	271,828	1,227,943
Other local	200,991	151,359	352,350
Total	\$ 2,723,469	\$ 423,187	\$ 3,146,656

Note 8 - Long-Term Liabilities Other than OPEB and Pensions

Summary

The changes in the District's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Due in One Year
Long-Term Liabilities					
General obligation bonds	\$ 339,490,644	\$ 12,399,307	\$ (10,730,000)	\$ 341,159,951	\$ 10,420,000
Unamortized premium	8,812,810	-	(836,007)	7,976,803	-
California energy commission loan	857,145	-	(428,571)	428,574	428,574
Finance purchase agreement	44,814	-	(16,240)	28,574	11,934
Compensated absences	4,200,070	729,028	-	4,929,098	-
Claims liability	12,107,050	127,295	(2,187,370)	10,046,975	2,187,370
Total	\$ 365,512,533	\$ 13,255,630	\$ (14,198,188)	\$ 364,569,975	\$ 13,047,878

Payments on the general obligation bonds are paid by the Bond Interest and Redemption Fund. Finance purchase agreement payments are made by the General Fund. The compensated absences will be paid by the General Fund, Child Development Fund, Cafeteria Fund, and the Internal Service Fund. The Internal Service Fund will pay the estimated insurance claims liabilities. The California energy commission loan is paid by the Special Reserve Fund for Capital Outlay Projects.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2021	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2022
1/1/07	8/1/31	3.3-4.5%	\$ 70,443,480	\$ 71,736,658	\$ 3,026,091	\$ (4,440,000)	\$ 70,322,749
6/8/11	8/1/46	3.6-7.3%	95,000,670	117,583,979	6,479,355	(1,255,000)	122,808,334
8/10/17	8/1/46	3.9-5.0%	80,546,666	89,780,007	2,893,861	-	92,673,868
8/15/17	8/1/39	2.0-5.0%	28,130,000	27,430,000	-	-	27,430,000
5/5/20	8/1/26	5.0%	32,960,000	32,960,000	-	(5,035,000)	27,925,000
				<u>\$ 339,490,644</u>	<u>\$ 12,399,307</u>	<u>\$ (10,730,000)</u>	<u>\$ 341,159,951</u>

2005 General Obligation Bonds, Series 2007

In January 2007, the District issued \$70,443,480 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2007. The bonds issued included \$27,900,000 of current interest bonds and \$42,543,480 of capital appreciation bonds, with the capital appreciation bonds accreting to \$102,915,000. The bonds have a final maturity to occur on August 1, 2031, with interest yields of 3.3 to 4.5%. Proceeds from the sale of the bonds were used to finance specific construction and renovation projects approved by the voters and to pay costs of issuance on the bonds. At June 30, 2022, the principal balance outstanding was \$70,322,749. Unamortized premium on issuance at June 30, 2022 was \$250,052.

2005 General Obligation Bonds, Series 2011

In June 2011, the District issued \$95,000,670 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2011. The bonds issued included \$11,928,966 of convertible bonds and \$83,071,704 of capital appreciation bonds. The bonds have final maturity dates through August 1, 2046, with interest rates ranging from 3.6 to 7.3%. The conversion value for the convertible bonds is \$22,385,000 and total accretion on the capital appreciation bonds is \$537,190,398. Proceeds from the sale of the bonds will be used to finance specific construction and renovation projects approved by the voters and to pay costs of issuance on the bonds. At June 30, 2022, the principal balance outstanding was \$122,808,334. Unamortized premium at June 30, 2022 was \$424,510.

2005 General Obligation Refunding Bonds, Series 2017

In August 2017, the District issued \$80,564,666 of the Newport-Mesa Unified School District, 2005 General Obligation Refunding Bonds, Series 2017. The bonds issued included \$17,580,000 of current interest bonds and \$62,984,666 of capital appreciation bonds, with capital appreciation bonds accreting to \$171,355,000.

The bonds have a final maturity to occur on August 1, 2046, with interest rates ranging from 3.9 to 5.0%. Proceeds from sale of bonds will be used to refund a portion of the outstanding General Obligation Bonds, Election of 2005, Series 2011 and to refund all of the outstanding General Obligation Refunding Bonds, Election of 2000, Series 2012, and to pay costs of issuance of the Refunding Bonds.

At June 30, 2022, the principal balance outstanding of the General Obligation Refunding Bonds, Series 2017 was \$92,673,868 and unamortized premium on issuance and deferred charge on refunding were \$3,839,592 and \$11,373,846, respectively.

2005 General Obligation Bonds, Series 2017

In August 2017, the District issued \$28,130,000 of the Newport-Mesa Unified School District, 2005 General Obligation Bonds, Series 2017. The bonds were issued as current interest bonds. The bonds have a final maturity date of August 1, 2039, with interest rates ranging from 2.0 to 5.0%. Proceeds from sale of bonds will be used to finance specific construction, repair, and improvement projects approved by the voter of the District held on November 8, 2005. At June 30, 2022, the principal balance outstanding of the 2005 General Obligation Bonds, Series 2017 was \$27,430,000 and unamortized premium on issuance was \$1,222,482.

2000 General Obligation Refunding Bonds, Series 2020

In May 2020, the District issued \$32,960,000 of the Newport-Mesa Unified School District, 2000 General Obligation Refunding Bonds, Series 2020. The bonds were issued as current interest bonds. The bonds have a final maturity to occur on August 1, 2026, with an interest rate of 5.0%. Proceeds from sale of bonds were used to refund, on a current basis, a portion of the outstanding General Obligation Refunding Bonds, Election of 2000, Series 2010, and to pay costs of issuance of the Refunding Bonds. At June 30, 2022, the principal balance outstanding of the General Obligation Refunding Bonds, Series 2020 was \$27,925,000 and unamortized premium on issuance was \$2,240,167.

The general obligation bonds mature through 2047 as follows:

Bonds Maturing Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2023	\$ 10,420,000	\$ -	\$ 4,517,030	\$ 14,937,030
2024	11,329,049	-	4,226,705	15,555,754
2025	12,256,267	-	3,910,455	16,166,722
2026	13,201,002	-	3,568,455	16,769,457
2027	14,477,861	-	3,186,705	17,664,566
2028-2032	77,497,944	-	11,172,050	88,669,994
2033-2037	66,722,504	-	9,583,575	76,306,079
2038-2042	68,831,032	-	7,986,900	76,817,932
2043-2047	66,424,292	63,510,709	705,128	130,640,129
Total	\$ 341,159,951	\$ 63,510,709	\$ 48,857,003	\$ 453,527,663

California Energy Commission Loan

The District entered into a loan agreement with the California Energy Commission (CEC) during the 2014-2015 fiscal year to obtain a maximum loan of \$3,000,000. The proceeds from the loan were used for the District's solar shade structure project and the agreement stipulated that the CEC would reimburse the District up to the maximum agreed-upon loan amount. The loan was offered with a zero percent interest rate and the District will commence repayment beginning the 2016-2017 fiscal year. The District will be making a total of 14 semi-annual installment payments in the amount of \$214,286 until the obligation is fully paid. The District has made two separate draw-down requests to the CEC. Proceeds from the first draw-down request in the amount of \$1,883,599 were received during the 2014-2015 fiscal year. Proceeds from the second draw-down request in the amount of \$1,116,401 were received during the 2015-2016 fiscal year. As of June 30, 2022, the District had an outstanding CEC loan balance of \$428,574.

<u>Year Ending June 30,</u>	<u>Future Payment</u>
2023	<u>\$ 428,574</u>

Finance Purchase Agreement

The District has entered into an agreement to lease equipment. The agreement is, in substance, a purchase, and is reported as a finance purchase agreement obligation. At June 30, 2022, the principal balance outstanding was \$28,574.

The remaining payment requirements for the finance purchase obligation debt as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2023	\$ 11,934
2024	9,176
2025	<u>7,464</u>
Total	<u>\$ 28,574</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2022, amounted to \$4,929,098.

Estimated Insurance Claims – Workers' Compensation

Liabilities for claims for all injury and compensation cases are established by the District's independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon the closing of each claim. Ending liabilities balances of \$10,046,975 were discounted at a rate of 2.5% and were accepted as estimated by the District's administrator.

Note 9 - Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2022, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 116,021,859	\$ 23,162,207	\$ 5,455,593	\$ 8,448,896
Medicare Premium Payment (MPP) Program	1,502,715	-	-	(281,464)
Total	\$ 117,524,574	\$ 23,162,207	\$ 5,455,593	\$ 8,167,432

The details of each plan are as follows:

District Plan**Plan Administration**

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

For the July 1, 2022 valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	108
Active employees	2,263
Total	2,371

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The benefit payment requirements of Plan members and the District are established and may be amended by the District, the Newport-Mesa Federation of Teachers (NMFT), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, NMFT, CSEA, and the unrepresented groups. For fiscal year 2021-2022, the District contributed \$5,402,286 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of \$116,021,859 was measured as of June 30, 2022, and the total OPEB liability was determined by an actuarial valuation as of July 1, 2022.

Actuarial Assumptions

The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	4.09 %
Salary increases	2.75 %, average, including inflation
Discount rate	4.09 %
Healthcare cost trend rates	7.00 % for 2022

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

CalSTRS mortality rates are from the 2020 experience study and the CalPERS mortality rates are from the 2021 experience study.

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of an actual experience study for the period July 1, 2021 to June 30, 2022.

	<u>Total OPEB Liability</u>
Balance, June 30, 2021	<u>\$ 130,302,900</u>
Service cost	7,810,304
Interest	2,952,300
Differences between expected and actual experience	(4,810,599)
Changes of assumptions	(14,830,760)
Benefit payments	<u>(5,402,286)</u>
Net change in total OPEB liability	<u>(14,281,041)</u>
Balance, June 30, 2022	<u><u>\$ 116,021,859</u></u>

There were no changes to the benefits terms.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.18% in 2021 to 4.09% in 2022.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (3.09%)	\$ 125,017,402
Current discount rate (4.09%)	116,021,859
1% increase (5.09%)	107,497,872

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (6.00%)	\$ 103,554,615
Current healthcare cost trend rate (7.00%)	116,021,859
1% increase (8.00%)	130,549,118

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the District recognized OPEB expense of \$8,448,896. At June 30, 2022, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,995,954	\$ -
Changes of assumptions	13,166,253	5,455,593
Total	<u>\$ 23,162,207</u>	<u>\$ 5,455,593</u>

The deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ (2,313,708)
2024	(2,313,708)
2025	(2,313,708)
2026	(2,395,515)
2027	(2,600,090)
Thereafter	(5,769,885)
Total	<u>\$ (17,706,614)</u>

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2020 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Net OPEB Liability and OPEB Expense

At June 30, 2022, the District reported a liability of \$1,502,715 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2021 and June 30, 2020, respectively, was 0.3767%, and 0.3662%, resulting in a net increase in the proportionate share of 0.0105%.

For the year ended June 30, 2022, the District recognized OPEB expense of \$(281,464).

Actuarial Methods and Assumptions

The June 30, 2021 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total OPEB liability to June 30, 2021, using the assumptions listed in the following table:

Measurement Date	June 30, 2021	June 30, 2020
Valuation Date	June 30, 2020	June 30, 2019
Experience Study	July 1, 2015 through June 30, 2018	June 30, 2014 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	2.16%	2.21%
Medicare Part A Premium Cost Trend Rate	4.50%	4.50%
Medicare Part B Premium Cost Trend Rate	5.40%	5.40%

For the valuation as of June 30, 2020, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 245 or an average of 0.16% of the potentially eligible population (152,062).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2021, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2021, is 2.16%. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 2.16%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2021, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.05% from 2.21% as of June 30, 2020.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (1.16%)	\$ 1,656,404
Current discount rate (2.16%)	1,502,715
1% increase (3.16%)	1,371,402

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

<u>Medicare Costs Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (3.50% Part A and 4.40% Part B)	\$ 1,366,543
Current Medicare costs trend rate (4.50% Part A and 5.40% Part B)	1,502,715
1% increase (5.50% Part A and 6.40% Part B)	1,658,831

Note 10 - Non-Obligatory Debt

These bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 as amended and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit, nor taxing power of the School District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the School District has no duty to pay the delinquency out of any available funds of the School District. The School District acts solely as an agent for those paying taxes levied and the bondholders. The Community Facilities District Bonds currently active include the Community Facilities District No. 90-1, Special Tax Bonds, Series 2012. As of June 30, 2022, the bonds have been fully defeased.

Note 11 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	158,146	-	-	192,137	350,283
Prepaid expenditures	88,354	-	-	-	88,354
Total nonspendable	<u>396,500</u>	<u>-</u>	<u>-</u>	<u>192,137</u>	<u>588,637</u>
Restricted					
Legally restricted programs	18,569,563	-	-	2,372,399	20,941,962
Food service	-	-	-	491,554	491,554
Capital projects	-	27,613,873	463,717	42,502,784	70,580,374
Debt service	-	-	-	13,124,228	13,124,228
Total restricted	<u>18,569,563</u>	<u>27,613,873</u>	<u>463,717</u>	<u>58,490,965</u>	<u>105,138,118</u>
Assigned					
Retiree benefits	21,157,971	-	-	-	21,157,971
Stabilization	47,459,057	-	-	-	47,459,057
Other	38,656,102	-	-	-	38,656,102
Capital projects	-	-	39,105,887	-	39,105,887
Total assigned	<u>107,273,130</u>	<u>-</u>	<u>39,105,887</u>	<u>-</u>	<u>146,379,017</u>
Unassigned					
Reserve for economic uncertainties	17,892,500	-	-	-	17,892,500
Total	<u>\$ 144,131,693</u>	<u>\$ 27,613,873</u>	<u>\$ 39,569,604</u>	<u>\$ 58,683,102</u>	<u>\$ 269,998,272</u>

Note 12 - Risk Management**Description**

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool for the property and liability coverage. Refer to Note 15 for additional information regarding the JPAs. The Workers' Compensation Program, for which the District retains risk of loss, is administered by the Internal Service Fund. Excess workers' compensation coverage is obtained through the purchase of commercial insurance.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liability

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liability

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. Unpaid claims and claims adjustment expenses were discounted at 2.5% and presented at their net present value. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2020 to June 30, 2022:

	<u>Workers' Compensation</u>
Liability Balance, July 1, 2020	\$ 13,998,095
Claims and changes in estimates	(1,367,026)
Claims payments	<u>(524,019)</u>
Liability Balance, July 1, 2021	12,107,050
Claims and changes in estimates	127,295
Claims payments	<u>(2,187,370)</u>
Liability Balance, June 30, 2022	<u>\$ 10,046,975</u>
Assets available to pay claims at June 30, 2022	<u>\$ 18,672,008</u>

Note 13 - Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2022, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 114,060,105	\$ 50,817,113	\$ 105,441,261	\$ 7,188,223
CalPERS	77,910,981	15,228,369	31,964,112	7,552,898
Total	<u>\$ 191,971,086</u>	<u>\$ 66,045,482</u>	<u>\$ 137,405,373</u>	<u>\$ 14,741,121</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)**Plan Description**

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2020, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program; thus, disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2022, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	16.92%	16.92%
Required employer contribution rate	10.828%	10.828%
Required state contribution rate		

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2022, are presented above and the District's total contributions were \$24,244,540.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	\$ 114,060,105
State's proportionate share of the net pension liability	<u>57,390,621</u>
Total	<u><u>\$ 171,450,726</u></u>

The net pension liability was measured as of June 30, 2021. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2021 and June 30, 2020, respectively, was 0.2506% and 0.2416%, resulting in a net increase in the proportionate share of 0.0090%.

For the year ended June 30, 2022, the District recognized pension expense of \$7,188,223. In addition, the District recognized pension expense and revenue of \$1,963,549 for support provided by the State. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 24,244,540	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	10,125,742	3,078,410
Differences between projected and actual earnings on pension plan investments	-	90,224,479
Differences between expected and actual experience in the measurement of the total pension liability	285,727	12,138,372
Changes of assumptions	16,161,104	-
	<u>\$ 50,817,113</u>	<u>\$ 105,441,261</u>
Total		

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2023	\$ (22,911,607)
2024	(20,956,635)
2025	(21,476,709)
2026	(24,879,528)
	<u>\$ (90,224,479)</u>
Total	

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ 5,328,531
2024	6,904,879
2025	567,882
2026	(340,575)
2027	(497,903)
Thereafter	(607,023)
Total	<u>\$ 11,355,791</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Experience study	July 1, 2015 through June 30, 2018
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2020 in

conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2021, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42%	4.8%
Real estate	15%	3.6%
Private equity	13%	6.3%
Fixed income	12%	1.3%
Risk mitigating strategies	10%	1.8%
Inflation sensitive	6%	3.3%
Cash/liquidity	2%	(0.4%)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.10% and assume that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 232,185,549
Current discount rate (7.10%)	114,060,105
1% increase (8.10%)	16,018,241

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2020 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2022, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	22.910%	22.910%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2022, are presented above and the total District contributions were \$12,469,743.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2022, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$77,910,981. The net pension liability was measured as of June 30, 2020. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2021 and June 30, 2020, respectively, was 0.3831% and 0.3811%, resulting in a net increase in the proportionate share of 0.0020%.

For the year ended June 30, 2022, the District recognized pension expense of \$7,552,898. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 12,469,743	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	432,783	1,880,529
Differences between projected and actual earnings on pension plan investments	-	29,899,915
Differences between expected and actual experience in the measurement of the total pension liability	<u>2,325,843</u>	<u>183,668</u>
Total	<u>\$ 15,228,369</u>	<u>\$ 31,964,112</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2023	\$ (7,498,872)
2024	(6,895,885)
2025	(7,189,410)
2026	<u>(8,315,748)</u>
Total	<u>\$ (29,899,915)</u>

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ 767,828
2024	(130,707)
2025	49,270
2026	8,038
Total	<u>\$ 694,429</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2020 and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90% of scale MP-2016.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	(0.92%)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 131,368,853
Current discount rate (7.15%)	77,910,981
1% increase (8.15%)	33,529,476

Alternative Retirement Program

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the Public Agency Retirement System (PARS) as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.5% of an employee's gross earnings. An employee is required to contribute 6.0% of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$71,337, which represents 1.5% of its current year covered payroll.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$16,119,120 (10.828% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Note 14 - Commitments and Contingencies**Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2022.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2022.

Construction Commitments

As of June 30, 2022, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Warehouse Alterations	\$ 761,768	02/24/23
Transportation Mtce Lift	254,221	06/01/23
Harper Improvements - Parking (ISAAC)	349,169	09/01/24
Newport Coast (Field Access)	122,684	08/01/24
Ensign (Fencing/Drop-off Parking)	1,136,573	12/01/22
TeWinkle (Parking Lot/Traffic Study)	14,000	02/01/24
CDMHS (Softball Scoreboard)	30,692	12/01/22
CDMHS (Varsity Softball/JV Baseball) Scoreboard	199,805	12/01/22
CDMHS (Fencing)	785,640	12/01/22
CDMHS (Sports Field)	219,468	12/01/22
EHS Theater (Parking Lot)	5,769,508	06/01/24
NHHS (Home Ec. Courtyard/Kiln)	1,325,480	06/01/23
NHHS (Sports Complex)	1,191,691	12/01/22
EHS Theater	<u>24,411,393</u>	06/01/24
Total	<u>\$ 36,572,092</u>	

Note 15 - Participation in Public Entity Risk Pools, Joint Power Authorities, and other Related Party Transactions

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), and Coastline Regional Occupation Program (CROP) Joint Power Authority's (JPAs). The District pays an annual premium to ASCIP for its property and liability coverage. Payments for funds received from the State on behalf of CROP are passed through to CROP. The relationships between the District, the pool, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2022, the District made payments of \$1,824,515 and \$1,574,905 to ASCIP and CROP, respectively, for services received.



Required Supplementary Information
June 30, 2022

Newport-Mesa Unified School District

Newport-Mesa Unified School District
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local Control Funding Formula	\$ 316,689,824	\$ 320,283,456	\$ 317,312,748	\$ (2,970,708)
Federal sources	13,317,284	28,117,742	26,056,329	(2,061,413)
Other State sources	40,275,726	39,811,430	60,978,851	21,167,421
Other local sources	4,022,417	9,593,624	7,524,797	(2,068,827)
Total revenues ¹	<u>374,305,251</u>	<u>397,806,252</u>	<u>411,872,725</u>	<u>14,066,473</u>
Expenditures				
Current				
Certificated salaries	146,678,594	152,855,923	145,946,957	6,908,966
Classified salaries	60,686,454	63,391,500	59,110,658	4,280,842
Employee benefits	92,976,715	95,565,476	104,921,856	(9,356,380)
Books and supplies	21,915,073	14,456,806	10,311,085	4,145,721
Services and operating expenditures	37,108,310	45,943,378	39,493,471	6,449,907
Other outgo	2,569,966	2,883,348	2,741,088	142,260
Capital outlay	3,946,237	4,365,336	2,518,858	1,846,478
Debt service				
Debt service - principal	-	-	16,240	(16,240)
Total expenditures ¹	<u>365,881,349</u>	<u>379,461,767</u>	<u>365,060,213</u>	<u>14,401,554</u>
Excess of Revenues Over Expenditures	<u>8,423,902</u>	<u>18,344,485</u>	<u>46,812,512</u>	<u>28,468,027</u>
Other Financing Uses				
Transfers out	(7,540,299)	(31,540,299)	(22,731,930)	8,808,369
Net Change in Fund Balances	883,603	(13,195,814)	24,080,582	37,276,396
Fund Balance - Beginning	<u>120,051,111</u>	<u>120,051,111</u>	<u>120,051,111</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 120,934,714</u>	<u>\$ 106,855,297</u>	<u>\$ 144,131,693</u>	<u>\$ 37,276,396</u>

¹ Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, Fund 20, Special Reserve Fund for Postemployment Benefits, and Fund 71, Retiree Benefit Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures; however, they are not included in the original and final General Fund budgets.

Newport-Mesa Unified School District
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability					
Service cost	\$ 7,810,304	\$ 7,486,306	\$ 6,197,752	\$ 6,232,910	\$ 6,356,417
Interest	2,952,300	3,326,097	3,543,001	3,586,629	3,556,064
Difference between expected and actual experience	(4,810,599)	-	(8,947,739)	-	-
Changes of assumptions	(14,830,760)	4,302,440	907,004	1,815,674	1,390,692
Benefit payments	<u>(5,402,286)</u>	<u>(4,702,901)</u>	<u>(5,165,629)</u>	<u>(4,769,780)</u>	<u>(4,104,142)</u>
Net change in total OPEB liability	(14,281,041)	10,411,942	(3,465,611)	6,865,433	7,199,031
Total OPEB Liability - Beginning	<u>130,302,900</u>	<u>119,890,958</u>	<u>123,356,569</u>	<u>116,491,136</u>	<u>109,292,105</u>
Total OPEB Liability - Ending	<u>\$ 116,021,859</u>	<u>\$ 130,302,900</u>	<u>\$ 119,890,958</u>	<u>\$ 123,356,569</u>	<u>\$ 116,491,136</u>
Covered Payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>
Total OPEB Liability as a Percentage of Covered Payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

¹ The OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

Newport-Mesa Unified School District
Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
Year Ended June 30, 2022

Year ended June 30,	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.3767%	0.3662%	0.4241%	0.4178%	0.4063%
Proportionate share of the net OPEB liability	\$ 1,502,715	\$ 1,784,179	\$ 1,579,297	\$ 1,599,064	\$ 1,709,152
Covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	(0.80%)	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note : In the future, as data becomes available, ten years of information will be presented.

Newport-Mesa Unified School District
Schedule of the District's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
CalSTRS								
Proportion of the net pension liability	0.2506%	0.2416%	0.2397%	0.2328%	0.2244%	0.2332%	0.2441%	0.2343%
Proportionate share of the net pension liability	\$ 114,060,105	\$ 234,150,468	\$ 216,516,683	\$ 213,913,594	\$ 207,523,362	\$ 188,647,018	\$ 164,342,374	\$ 136,898,547
State's proportionate share of the net pension liability	57,390,621	120,704,594	118,124,305	122,475,537	122,769,068	107,393,382	86,918,999	82,665,253
Total	<u>\$ 171,450,726</u>	<u>\$ 354,855,062</u>	<u>\$ 334,640,988</u>	<u>\$ 336,389,131</u>	<u>\$ 330,292,430</u>	<u>\$ 296,040,400</u>	<u>\$ 251,261,373</u>	<u>\$ 219,563,800</u>
Covered payroll	<u>\$ 136,200,836</u>	<u>\$ 132,458,649</u>	<u>\$ 128,783,943</u>	<u>\$ 121,916,154</u>	<u>\$ 117,960,676</u>	<u>\$ 114,596,766</u>	<u>\$ 115,079,583</u>	<u>103,627,675</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>83.74%</u>	<u>176.77%</u>	<u>168.12%</u>	<u>175.46%</u>	<u>175.93%</u>	<u>164.62%</u>	<u>142.81%</u>	<u>132.11%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>87.2%</u>	<u>72.0%</u>	<u>73.0%</u>	<u>71.0%</u>	<u>69.0%</u>	<u>70.0%</u>	<u>74.0%</u>	<u>76.5%</u>
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS								
Proportion of the net pension liability	0.3831%	0.3811%	0.3795%	0.3844%	0.3789%	0.3928%	0.4069%	0.3936%
Proportionate share of the net pension liability	\$ 77,910,981	\$ 116,943,653	\$ 110,594,096	\$ 102,500,194	\$ 90,460,321	\$ 77,584,002	\$ 59,973,861	\$ 44,688,601
Covered payroll	<u>\$ 54,970,734</u>	<u>\$ 54,932,965</u>	<u>\$ 51,595,549</u>	<u>\$ 49,724,396</u>	<u>\$ 48,105,184</u>	<u>\$ 47,007,715</u>	<u>\$ 45,250,752</u>	<u>40,062,362</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>141.73%</u>	<u>212.88%</u>	<u>214.35%</u>	<u>206.14%</u>	<u>188.05%</u>	<u>165.05%</u>	<u>132.54%</u>	<u>111.55%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>81%</u>	<u>70%</u>	<u>70%</u>	<u>71%</u>	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Note : In the future, as data becomes available, ten years of information will be presented.

Newport-Mesa Unified School District
Schedule of the District's Contributions
Year Ended June 30, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
CaSTRS								
Contractually required contribution	\$ 24,244,540	\$ 21,996,435	\$ 22,650,429	\$ 20,966,026	\$ 17,592,501	\$ 14,839,453	\$ 12,296,233	\$ 10,219,067
Less contributions in relation to the contractually required contribution	<u>24,244,540</u>	<u>21,996,435</u>	<u>22,650,429</u>	<u>20,966,026</u>	<u>17,592,501</u>	<u>14,839,453</u>	<u>12,296,233</u>	<u>10,219,067</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 143,289,243</u>	<u>\$ 136,200,836</u>	<u>\$ 132,458,649</u>	<u>\$ 128,783,943</u>	<u>\$ 121,916,154</u>	<u>\$ 117,960,676</u>	<u>\$ 114,596,766</u>	<u>\$ 115,079,583</u>
Contributions as a percentage of covered payroll	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CaPERS								
Contractually required contribution	\$ 12,469,743	\$ 11,378,942	\$ 10,833,330	\$ 9,319,188	\$ 7,722,696	\$ 6,680,848	\$ 5,569,004	\$ 5,326,466
Less contributions in relation to the contractually required contribution	<u>12,469,743</u>	<u>11,378,942</u>	<u>10,833,330</u>	<u>9,319,188</u>	<u>7,722,696</u>	<u>6,680,848</u>	<u>5,569,004</u>	<u>5,326,466</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 54,429,258</u>	<u>\$ 54,970,734</u>	<u>\$ 54,932,965</u>	<u>\$ 51,595,549</u>	<u>\$ 49,724,396</u>	<u>\$ 48,105,184</u>	<u>\$ 47,007,715</u>	<u>\$ 45,250,752</u>
Contributions as a percentage of covered payroll	<u>22.910%</u>	<u>20.700%</u>	<u>19.721%</u>	<u>18.062%</u>	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

Note : In the future, as data becomes available, ten years of information will be presented.

Note 1 - Purpose of Schedules

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms.
- *Changes of Assumptions* – The discount rate was changed from 2.18% to 4.09% since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.
- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 2.21% to 2.16% since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
- *Changes of Assumptions* – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of the District's Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.



Supplementary Information
June 30, 2022

Newport-Mesa Unified School District

Newport-Mesa Unified School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
Special Education (IDEA) Cluster			
Special Education Grants to States - Basic Local Assistance	84.027	13379	\$ 3,493,210
Special Education Grants to States - Private School ISP	84.027	10115	150,567
Special Education Grants to States - Preschool Grants	84.173	13430	68,267
Special Education Grants to States - Mental Health	84.027	15197	224,463
Special Education Grants to States - Alternate Dispute Resolution	84.173A	13007	<u>87,059</u>
Subtotal Special Education (IDEA) Cluster			<u>4,023,566</u>
Education Stabilization Fund			
COVID-19 Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	15536	43,751
COVID-19 Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	8,901,669
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	1,937,298
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	411,756
COVID-19 Governor's Emergency Education Relief Fund: Learning Loss Mitigation	84.425C	15517	380,828
COVID-19 Expanded Learning Opportunities (ELO) Grant: ESSER II State Reserve	84.425D	15618	1,904,226
COVID-19 Expanded Learning Opportunities (ELO) Grant: GEER II	84.425C	15619	437,037
COVID-19 Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Emergency Needs	84.425U	15620	88,309
COVID-19 Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Learning Loss	84.425U	15621	1,305,330
COVID-19 American Rescue Plan - Homeless Children and Youth II (ARP HCY II)	84.425W	15566	<u>70,358</u>
Subtotal Education Stabilization Fund			<u>15,480,562</u>
Title I, Grant to Local Educational Agencies - Low-Income and Neglected	84.010	14329	4,517,476
Title II, Supporting Effective Instruction State Grants	84.367	14341	443,649
Title III, English Language Acquisition State Grants - English Learner Student Program	84.365	14346	398,983
Student Support and Academic Enrichment Program	84.424	15396	556,418
Career and Technical Education - Basic Grants to States	84.048	14894	156,502
Special Education - Early Intervention Grants, Part C	84.181	23761	53,202
Passed through Department of Rehabilitation Workability II, Transition Partnership	84.126	10006	<u>420,157</u>
Total U.S. Department of Education			<u>22,026,949</u>

Newport-Mesa Unified School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed Through CDE			
Child Nutrition Cluster			
National School Lunch Program, Section 4	10.555	13523	\$ 515,900
National School Lunch Program, Section 11	10.555	13524	4,947,571
School Basic Breakfast Program	10.553	13525	897,160
School Breakfast Program - Especially Needy	10.553	13526	444,905
Meal Supplements	10.555	13755	101,025
National School Lunch Program - Commodities	10.555	13524	593,063
COVID 19 SNP COVID-19 Emergency Operational Costs Reimbursement (ECR)	10.555	15637	<u>499,735</u>
Total Child Nutrition Cluster			<u>7,999,359</u>
Total U.S. Department of Agriculture			<u>7,999,359</u>
Total Federal Financial Assistance			<u>\$ 34,049,874</u>

ORGANIZATION

The Newport-Mesa Unified School District was established in 1966 and covers both the Newport and Costa Mesa areas of Orange County. The District operates 22 elementary schools, two middle schools, two 7-12 grade schools, two comprehensive high schools, one early college high school, two alternative education schools including both continuation and independent study, and one adult education school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ms. Ashley Anderson	President	2026
Ms. Carol Crane	Vice President	2024
Ms. Krista Weigand	Clerk	2024
Ms. Leah Ersoylu	Member	2024
Ms. Michelle Murphy	Member	2026
Ms. Lisa Pearson	Member	2026
Ms. Michelle Barto	Member	2026

ADMINISTRATION

Dr. Wesley Smith	Superintendent
Mr. John C. Drake	Assistant Superintendent, Elementary Education
Ms. Kerrie Torres	Assistant Superintendent, Secondary Education
Ms. Socorro Shiels	Assistant Superintendent, Achievement, Innovation, and Continuous Improvement
Mr. Jeff Trader	Assistant Superintendent, Chief Business Official
Ms. Leona Olson	Assistant Superintendent, Chief Human Resources Officer
Dr. Sara Jocham	Assistant Superintendent, Student Support Services/SELPA

Newport-Mesa Unified School District
Schedule of Average Daily Attendance
Year Ended June 30, 2022

	Final Report		As Adjusted per Audit	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA				
Transitional kindergarten through third	4,362.57	4,376.69	4,341.83	4,360.06
Fourth through sixth	3,602.12	3,607.27	3,587.30	3,594.20
Seventh and eighth	2,526.66	2,527.04	2,510.28	2,508.64
Ninth through twelfth	6,046.33	6,046.84	6,014.70	6,014.95
Total Regular ADA	<u>16,537.68</u>	<u>16,557.84</u>	<u>16,454.11</u>	<u>16,477.85</u>
Extended Year Special Education				
Transitional kindergarten through third	15.34	15.34	15.34	15.34
Fourth through sixth	4.25	4.25	4.25	4.25
Seventh and eighth	1.27	1.27	1.27	1.27
Ninth through twelfth	5.72	5.72	5.72	5.72
Total Extended Year Special Education	<u>26.58</u>	<u>26.58</u>	<u>26.58</u>	<u>26.58</u>
Special Education, Nonpublic, Nonsectarian Schools				
Transitional kindergarten through third	-	0.32	-	0.32
Fourth through sixth	2.53	2.68	2.53	2.68
Seventh and eighth	3.76	4.26	3.76	4.26
Ninth through twelfth	9.48	11.33	9.48	11.33
Total Special Education, Nonpublic, and Nonsectarian Schools	<u>15.77</u>	<u>18.59</u>	<u>15.77</u>	<u>18.59</u>
Extended Year Special Education, Nonpublic, and Nonsectarian Schools				
Seventh and eighth	0.16	0.16	0.16	0.16
Ninth through twelfth	1.68	1.68	1.68	1.68
Total Extended Year Special Education, Nonpublic, and Nonsectarian Schools	<u>1.84</u>	<u>1.84</u>	<u>1.84</u>	<u>1.84</u>
Total ADA	<u><u>16,581.87</u></u>	<u><u>16,604.85</u></u>	<u><u>16,498.30</u></u>	<u><u>16,524.86</u></u>

Newport-Mesa Unified School District
 Schedule of Instructional Time
 Year Ended June 30, 2022

Grade Level	1986-1987 Minutes Requirement	2021-2022 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Traditional Calendar			Multitrack Calendar			Status
					Number of Actual Days	Number of Days Credited Form J-13A	Total Days Offered	Number of Actual Days	Number of Days Credited Form J-13A	Total Days Offered	
Kindergarten	36,000	53,560	-	53,560	180	-	180	N/A	N/A	N/A	Complied
Grades 1 - 3	50,400										
Grade 1		53,660	-	53,660	180	-	180	N/A	N/A	N/A	Complied
Grade 2		53,660	-	53,660	180	-	180	N/A	N/A	N/A	Complied
Grade 3		53,660	-	53,660	180	-	180	N/A	N/A	N/A	Complied
Grades 4 - 8	54,000										
Grade 4		56,390	-	56,390	180	-	180	N/A	N/A	N/A	Complied
Grade 5		56,390	-	56,390	180	-	180	N/A	N/A	N/A	Complied
Grade 6		56,390	-	56,390	180	-	180	N/A	N/A	N/A	Complied
Grade 7		60,695	-	60,695	180	-	180	N/A	N/A	N/A	Complied
Grade 8		60,695	-	60,695	180	-	180	N/A	N/A	N/A	Complied
Grades 9 - 12	64,800										
Grade 9		65,580	-	65,580	180	-	180	N/A	N/A	N/A	Complied
Grade 10		65,580	-	65,580	180	-	180	N/A	N/A	N/A	Complied
Grade 11		65,580	-	65,580	180	-	180	N/A	N/A	N/A	Complied
Grade 12		65,580	-	65,580	180	-	180	N/A	N/A	N/A	Complied

Newport-Mesa Unified School District
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2022

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2022.

Newport-Mesa Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 2022

	(Budget) 2023 ¹	2022	2021 ¹	2020 ¹
General Fund ³				
Revenues	\$ 436,683,908	\$ 412,493,190	\$ 369,802,248	\$ 335,441,688
Expenditures	418,964,541	366,012,882	331,130,443	316,313,350
Other uses	4,728,440	31,601,337	24,005,000	2,748,622
Total expenditures and other uses	423,692,981	397,614,219	355,135,443	319,061,972
Increase in Fund Balance	12,990,927	14,878,971	14,666,805	16,379,716
Ending Fund Balance	\$ 97,308,547	\$ 84,317,620	\$ 69,438,649	\$ 54,771,844
Available Reserves ^{2,4}	\$ 19,374,146	\$ 17,892,500	\$ 15,977,000	\$ 11,663,792
Available Reserves as a Percentage of Total Outgo	4.57%	4.50%	4.50%	3.66%
Long-Term Liabilities	N/A	\$ 674,065,635	\$ 848,693,733	\$ 814,606,849
K-12 Average Daily Attendance at P-2	16,315	16,498	19,215	19,215

The General Fund balance has increased by \$29,545,776 over the past two years. The fiscal year 2022-2023 budget projects a further increase of \$12,990,927 (15.41%). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2022-2023 fiscal year. Total long-term obligations have decreased by \$140,541,214 over the past two years.

Average daily attendance has decreased by 2,719 over the past two years. A further decline of 181 ADA is anticipated during fiscal year 2022-2023.

¹ Financial information for 2023, 2021, and 2020 are included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other than Capital Outlay Projects, the Special Reserve Fund for Postemployment Benefits, and the Retiree Benefits Fund as required by GASB Statement No. 54.

Newport-Mesa Unified School District
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2022

	Student Activity Fund	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
Assets							
Deposits and investments	\$ 1,515,943	\$ 967,452	\$ 344,283	\$ 10,945,229	\$ 31,362,857	\$ 13,112,848	\$ 58,248,612
Receivables	-	600,903	2,391,679	216,077	17,205	11,380	3,237,244
Due from other funds	-	-	170,193	-	-	-	170,193
Stores inventories	-	-	192,137	-	-	-	192,137
Total assets	\$ 1,515,943	\$ 1,568,355	\$ 3,098,292	\$ 11,161,306	\$ 31,380,062	\$ 13,124,228	\$ 61,848,186
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ 328,970	\$ 537,543	\$ 38,584	\$ -	\$ -	\$ 905,097
Due to other funds	-	111,101	1,725,699	-	-	-	1,836,800
Unearned revenue	-	271,828	151,359	-	-	-	423,187
Total liabilities	-	711,899	2,414,601	38,584	-	-	3,165,084
Fund Balances							
Nonspendable	-	-	192,137	-	-	-	192,137
Restricted	1,515,943	856,456	491,554	11,122,722	31,380,062	13,124,228	58,490,965
Total fund balances	1,515,943	856,456	683,691	11,122,722	31,380,062	13,124,228	58,683,102
Total liabilities and fund balances	\$ 1,515,943	\$ 1,568,355	\$ 3,098,292	\$ 11,161,306	\$ 31,380,062	\$ 13,124,228	\$ 61,848,186

Newport-Mesa Unified School District

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds
Year Ended June 30, 2022

	Student Activity Fund	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
Revenues							
Federal sources	\$ -	\$ 124,800	\$ 8,487,219	\$ -	\$ -	\$ -	\$ 8,612,019
Other State sources	-	3,221,858	445,875	-	-	29,733	3,697,466
Other local sources	4,136,270	103,534	22,606	782,510	(390,393)	15,020,829	19,675,356
Total revenues	4,136,270	3,450,192	8,955,700	782,510	(390,393)	15,050,562	31,984,841
Expenditures							
Current							
Instruction	-	2,595,155	-	-	-	-	2,595,155
Instruction-related activities							
Supervision of instruction	-	319,245	-	-	-	-	319,245
School site administration	-	140,438	-	-	-	-	140,438
Pupil services							
Food services	-	-	8,843,736	-	-	-	8,843,736
Administration							
All other administration	-	218,731	309,823	-	-	-	528,554
Plant services	-	25,145	-	18,714	-	-	43,859
Ancillary services	4,110,509	-	-	-	-	-	4,110,509
Facility acquisition and construction	-	-	-	102,281	-	-	102,281
Debt service							
Principal	-	-	-	-	-	10,730,000	10,730,000
Interest and other	-	-	-	5,982	-	4,076,352	4,082,334
Total expenditures	4,110,509	3,298,714	9,153,559	126,977	-	14,806,352	31,496,111
Excess (Deficiency) of Revenues Over Expenditures	25,761	151,478	(197,859)	655,533	(390,393)	244,210	488,730
Other Financing Sources							
Transfers in	-	-	431,930	-	-	-	431,930
Net Change in Fund Balances	25,761	151,478	234,071	655,533	(390,393)	244,210	920,660
Fund Balance - Beginning	1,490,182	704,978	449,620	10,467,189	31,770,455	12,880,018	57,762,442
Fund Balance - Ending	\$ 1,515,943	\$ 856,456	\$ 683,691	\$ 11,122,722	\$ 31,380,062	\$ 13,124,228	\$ 58,683,102

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the Newport-Mesa Unified School District (the District) under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Newport-Mesa Unified School District, it is not intended to and does not present the net position or changes in net position and fund balance, or cash flows of Newport-Mesa Unified School District.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal assistance has been provided to a subrecipient.

Indirect Cost Rate

The District has not elected to use the ten percent de minimis cost rate.

Food Donation

Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. At June 30, 2022, the District did not have commodities reported as inventory.

SEFA Reconciliation

The following provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of COVID-19 Child Development: ARP California State Preschool Program One-time Stipend funds, Supply Chain Assistance (SCA) Funds, and Pandemic EBT Local Administrative Grant funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2022. These unspent balances are reported as legally restricted ending balances within the Child Development Fund, the Cafeteria Fund, and the General Fund, respectively.

	<u>Federal Financial Assistance Listing Number</u>	<u>Amount</u>
Total Federal Revenues reported on the financial statements		\$ 34,668,348
COVID-19 Child Development: ARP California State Preschool Program One-time Stipend	93.575	(124,800)
Supply Chain Assistance (SCA) Funds	10.555	(487,860)
Pandemic EBT Local Administrative Grant	10.649	(5,814)
Total federal financial assistance		<u>\$ 34,049,874</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46207.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

These schedules are included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.



Independent Auditor's Reports
June 30, 2022

Newport-Mesa Unified School District



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newport-Mesa Unified School District (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated February 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated February 24, 2023.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
February 24, 2023



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Newport-Mesa Unified School District’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Newport-Mesa Unified School District’s major federal programs for the year ended June 30, 2022. Newport-Mesa Unified School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Newport-Mesa Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Newport-Mesa Unified School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Newport-Mesa Unified School District’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Newport-Mesa Unified School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Newport-Mesa Unified School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Newport-Mesa Unified School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Newport-Mesa Unified School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Newport-Mesa Unified School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Newport-Mesa Unified School District's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Newport-Mesa Unified School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Newport-Mesa Unified School District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Newport-Mesa Unified School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
February 24, 2023



Independent Auditor's Report on State Compliance

To the Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

Report on Compliance

Qualified and Unmodified Opinions on State Compliance

We have audited Newport-Mesa Unified School District's (the District) compliance with the requirements specified in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the District's state program requirements identified below for the year ended June 30, 2022.

Qualified Opinion on Attendance, Independent Study, School Accountability Report Card, Unduplicated Local Control Funding Formula Pupil Counts, and Expanded Learning Opportunities Grant

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2022, except as described in the accompanying Schedule of Findings and Questioned Costs.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Attendance, Independent Study, School Accountability Report Card, Unduplicated Local Control Funding Formula Pupil Counts, and Expanded Learning Opportunities Grant

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Attendance, Independent Study, School Accountability Report Card, Unduplicated Local Control Funding Formula Pupil Counts, and Expanded Learning Opportunities Grant as described in finding numbers 2022-002, 2022-003, 2022-004, and 2022-005.

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.

- Obtain an understanding of the District’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the District’s compliance with the state laws and regulations applicable to the following items:

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	Yes, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, see below
Immunizations	No, see below
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Yes
In Person Instruction Grant	Yes

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
Charter Schools	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	No, see below
Charter School Facility Grant Program	No, see below

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not offer Juvenile Court Schools; therefore, we did not perform the related procedures.

We did not perform Apprenticeship: Related and Supplemental Instruction procedures because the program is not offered by the District.

We did not perform District of Choice procedures because the program is not offered by the District.

We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

The District was not listed on the immunization assessment reports; therefore, we did not perform the remaining procedures.

The District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003, 2022-004, and 2022-005 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
February 24, 2023



Schedule of Findings and Questioned Costs
June 30, 2022

Newport-Mesa Unified School District

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	Yes

Identification of major programs

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing Number</u>
Special Education (IDEA) Cluster	84.027, 84.173, 84.173A
COVID-19 Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U
COVID-19 Governor's Emergency Education Relief Fund: Learning Loss Mitigation	84.425C
COVID-19 Expanded Learning Opportunities (ELO) Grant: ESSER II State Reserve	84.425D
COVID-19 Expanded Learning Opportunities (ELO) Grant: GEER II	84.425C
COVID-19 Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Emergency Needs	84.425U
COVID-19 Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Learning Loss	84.425U
COVID-19 American Rescue Plan - Homeless Children and Youth II (ARP HCY II)	84.425W
Dollar threshold used to distinguish between type A and type B programs	\$1,021,496
Auditee qualified as low-risk auditee?	No

State Compliance

Internal control over state compliance programs	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for programs	Qualified*

*Unmodified for all programs except for the following programs which were qualified:

Name of Program

- Attendance
- Independent Study
- School Accountability Report Card
- Unduplicated Local Control Funding Formula Pupil Counts
- Expanded Learning Opportunities Grant

None reported.

The following finding represents a significant deficiency and an instance of noncompliance that is required to be reported by the Uniform Guidance. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

2022-001 50000 – Education Stabilization Fund Reporting (Significant Deficiency, Noncompliance)

Federal Program Affected

Program Name: Elementary and Secondary School Emergency Relief Fund III (ESSER III):
Learning Loss
Assistance Listing Number: 84.425U
Pass-Through Entity: California Department of Education (CDE)
Federal Agency: U.S. Department of Education

Criteria or Specific Requirements

Local education agencies must comply with all reporting requirements that the Department of Education may reasonably require. Section 15011 of Division B of the Coronavirus Aid, Relief, and Economic Security (CARES) Act requires that a grantee submit quarterly reports. ESSER Funds awarded under the American Rescue Plan (ARP) Act of 2021 are subject to the same quarterly reporting requirements.

Condition

The District did not properly prepare the quarterly reports for the Elementary and Secondary School Emergency Relief Fund III (ESSER III): Learning Loss program.

Questioned Costs

There are no questioned costs associated with the condition identified.

Context

The condition was identified through review of a sample of the quarterly reports prepared for the program. In a sample of 11 quarterly reports, it was noted that one report did not accurately report the expenditures incurred for that quarter.

Effect

The District overreported expenditures for ARP ESSER funds and, as such, is not in compliance with the reporting requirements for the program.

Cause

It appears that the condition has materialized due to an anticipated year-end closing entry to transfer expenditures into the program not being posted.

Repeat Finding

No.

Recommendation

The District should implement a review process to ensure that the information reported in the quarterly reports is accurate.

Corrective Action Plan and Views of Responsible Officials

The District reported what was believed to be transferred into the program by the close of the fiscal year. Unfortunately, those expenses were not moved as the books were closed long after the reporting deadline. The report was adjusted with the CDE at the following reporting period and now reflect the correct expenditures. In the future, all related year-end transfers will be prioritized and completed prior to the reporting deadlines to ensure that they match.

The following findings represent significant deficiencies, a material weakness, and material instances of noncompliance including questioned costs that are required to be reported by the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
10000	Attendance
40000	State Compliance
72000	School Accountability Report Card

2022-002 10000 and 40000 – Attendance and Independent Study (Material Weakness, Noncompliance)

Criteria or Specific Requirements

California Education Code Section 51749.6, states that a local education agency shall not be eligible to receive apportionment for independent study by pupils, unless it has provided each pupil with a written learning agreement that contains all the required elements identified in *California Education Code* Section 51749.6.

Condition

While the District has developed written learning agreements to be provided to each pupil enrolled in independent study, during our audit of the independent study site, Cloud Campus, we noted that out of our sample of 20 elementary and 20 secondary students selected for testing, 2 elementary and 5 secondary students did not have signed written learning agreements on file. After a full evaluation of all students enrolled at Cloud Campus, the District identified a total of 83.57 and 79.99 ADA at P2 and Annual, respectively that was attributed to students who did not have a signed learning agreement on file. Using the derived value of ADA, the calculated penalty at P2 by grade span is as follows:

<u>Grade Span</u>	<u>Unallowable ADA</u>	<u>Derived Value of ADA by Grade Span</u>	<u>Penalty</u>
TK-3	20.74	\$ 9,740.58	\$ 202,019.63
4-6	14.82	8,955.66	132,722.88
7-8	16.38	9,220.57	151,032.94
9-12	<u>31.63</u>	<u>10,963.74</u>	<u>346,783.10</u>
Total	<u><u>83.57</u></u>	<u><u>\$ 38,880.55</u></u>	<u><u>\$ 832,558.54</u></u>

Questioned Costs

There is no questioned cost associated with this condition. After a full evaluation of all students attending Cloud Campus, the District calculated a total of 83.57 ADA at P2 and 79.99 ADA at Annual of overclaimed ADA related to students who did not have a written learning agreement on file, which calculates as \$832,558.54 in potential reduced Local Control Funding Formula using the CDE's LCFF Derived Value of ADA by Grade Span. However, the District is community funded (property tax funded) and thus this negates the fiscal impact.

Context

During our testing of the independent study site – Cloud Campus, we selected a sample of 20 elementary pupils and 20 secondary pupils to determine if written learning agreements were provided to each pupil enrolled in the program. We identified 2 elementary and 5 secondary pupils who did not have completed written learning agreements on file. As a result, the District evaluated the remaining population of students enrolled in Cloud Campus to determine how many students in total did not have written learning agreements on file. The District then calculated the ADA claimed for the identified students. This resulted in a total of 83.57 ADA at P2 and 79.99 ADA at Annual that was overclaimed.

Effect

As noted above, the effect of the condition identified was overclaimed ADA of 83.57 and 79.99 at P2 and Annual, respectively. This resulted in a calculated penalty of \$832,558.54, but is negated by the fact that the District is community funded.

Cause

The cause of the condition identified appears to be a result of the District's inability to fully collect all signed written learning agreements from families within the first 30 days of enrollment in the program.

Repeat Finding

No.

Recommendation

The District should ensure that completed written learning agreements are on file for all students enrolled in an independent study program. If the District is unable to obtain completed written learning agreements, the District should exclude ADA from their P2 and Annual attendance reports for any student in which a written learning agreement is not on file.

Corrective Action Plan and Views of Responsible Officials

The virtual Cloud Campus was founded in response to the COVID-19 Pandemic. Foundational documents such as a written learning agreement, parent/student handbook, and course contracts had to be drafted and approved by the Executive Cabinet before being sent out to parents electronically to sign and return.

Several challenges presented themselves in the collection of master agreements. Parents were notified multiple times, through general messaging, individual messaging, individual phone calls, calls from the School Community Facilitator, and through Home Visits through the Welfare and Attendance Officer. Some parents refused to return calls or answer the door on home visits. Others did not provide correct contact information. Technology challenges also factored in as many did not have access to a printer and were unable to sign digitally due to a lack of device or technical skills. There were McKinney Vento situations where families could not verify an address or phone number and had no Internet access. A final challenge was the five-day transfer in/out regulation per AB 30 as some students exited before capturing written learning agreement.

Beginning in the 2022-2023 school year, procedures were in place to capture all written learning agreements. The written learning agreement was available at registration for parents to sign, along with ancillary documents related to independent study. The remaining signatures were collected prior to the first day of instruction. New students entering Cloud Campus are provided with the written learning agreement on or before the first day of instruction. The Cloud Campus offices are available for visitors due to the improved COVID-19 situation, and most every parent comes on site to sign in person at the Cloud office.

2022-003 72000 – School Accountability Report Card (Significant Deficiency, Noncompliance)

Criteria or Specific Requirements

California Education Code Section 33126(b)(8) requires each school accountability report card to include an assessment of the safety, cleanliness, and adequacy of school facilities, including any needed maintenance to ensure good repair as specified in Section 17014, Section 17032.5, subdivision (a) of Section 17070.75, and subdivision (b) of Section 17089.

Condition

The Newport-Mesa Unified School District (the District) has updated their school accountability report cards; however, the information related to the safety, cleanliness, and adequacy of school facilities, including any needed maintenance to ensure good repair, was not reported accurately on the school accountability report cards.

Questioned Costs

There are no questioned costs associated with the condition identified.

Context

The condition was identified through review of a sample of school accountability report cards published during the 2021-2022 school year. Three of the nine school accountability report cards sampled did not accurately report the information related to the safety, cleanliness, and adequacy of school facilities, including any needed maintenance to ensure good repair.

Effect

The District is not in compliance with *California Education Code* Section 33126(b)(8).

Cause

It appears that the condition has materialized due to lack of review processes related to the preparation of the school accountability report cards.

Repeat Finding

No.

Recommendation

The District should implement a review process to ensure that the information contained in the school accountability report cards is accurate.

Corrective Action Plan and Views of Responsible Officials

The District has implemented a secondary review process for the input of the SARC data to help ensure that the data is reported accurately.

2022-004 40000 –Unduplicated Local Control Funding Formula Pupil Counts (Significant Deficiency, Noncompliance)

Criteria or Specific Requirements

California Education Code Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data Systems (CalPads).

Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of Education were inaccurate. It appears that the District inaccurately reported three students as having a designation of free or reduced on the “1.18 – FRPM/English Learner/Foster Youth – Student List” report.

Questioned Costs

Using the audit penalty calculator published by the California Department of Education, the calculated questioned cost was determined to be \$3,494. However, the District is a community funded (property tax funded) District and as a result, there would be no impact on current year’s revenues.

Context

The condition was identified through inquiry with District personnel. Upon further inquiry and examination of District records, we noted the District had certain pupils with multiple identification numbers in the student information system. The multiple identification numbers resulted in errors in the data transfer from the student information system to CalPads. As a result, three students were incorrectly designated as having free or reduced status on the “1.18 – FRPM/English Learner/Foster Youth – Student List” report.

Effect

As a result of our testing, it appears that the District misreported pupils on the 1.18 – FRPM/English Learner/Foster Youth – Student List” CalPads report. The following schedule identified the District-wide exceptions:

	Enrollment Count	Certified Total Unduplicated Count	Adjustment Based on Eligibility FRPM	Adjusted Total Unduplicated Count
Total District-Wide	<u>17,962</u>	<u>7,313</u>	<u>(3)</u>	<u>7,310</u>

Cause

The primary cause appears to originate from District having students with multiple identification numbers in their student information system. This resulted in errors in the data transfer from the student information system to CalPads.

Repeat Finding

Yes (See prior year finding 2021-003).

Recommendation

The District should emphasize the importance of completing Form 1.18 accurately, which includes ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should ensure that the information inputted to the student information system is properly maintained.

Corrective Action Plan and Views of Responsible Officials

To correct student records that show multiple ID numbers, a guiding document was created in the 2021-2022 school year outlining the process beginning at the school site to find and merge duplicate records, and the implications thereof. The document outlines implications of duplicate student ID numbers as well as next steps that involve the IT, Special Education, Nutrition Services, Health Services, and ASB/Fiscal departments. This document, "Duplicate AERIES Student Record Implications – 2021-2022", is now in a shared Google Folder that is accessible by all elementary administrative assistants and secondary registrars. Training with personnel in these positions has been ongoing in the 2022-2023 school year, both in group and individual/case-by-case settings and has been facilitated by the Coordinator of Data System Support and Staff Development. The CALPADS reporting point of contact in the NMUSD IT department, a Computer Software Analyst II, also supports monitoring student data for duplicate ID numbers throughout the school year.

2022-005 40000 – Expanded Learning Opportunities Grant (Significant Deficiency, Noncompliance)

Criteria or Specific Requirements

California Education Code Section 43522(e) requires the governing board of local education agencies to adopt an Expanded Learning Opportunities Grant plan on or before June 1, 2021 and to submit the plan to the county office of education within five days of adoption by the governing board.

Condition

The Newport-Mesa Unified School District's governing board adopted the Expanded Learning Opportunities Grant plan on May 18, 2021; however, the plan was not submitted to the Orange County Department of Education until June 7, 2021, which was not within the five-day timeline

Questioned Costs

There are no questioned costs associated with the condition identified.

Context

The condition was identified through a review of District records related to the Expanded Learning Opportunities Grant plan and inquiry with management.

Effect

The District is not in compliance with *California Education Code* Section 43522(e).

Cause

No specific cause was identified other than a lack of oversight.

Repeat Finding

No.

Recommendation

The District should implement a process to ensure that requirements for new funding sources are reviewed and implemented.

Corrective Action Plan and Views of Responsible Officials

The late submission of the plan to the Orange County Department of Education was an oversight. The importance of following submission deadlines has been made clear.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statements Findings

2021-001 30000 – Internal Control

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should include a review of the year-end closing entries necessary to ensure the financial statements are fairly stated. The District should ensure that all applicable accounting principles are adhered to when preparing the financial statements.

Condition

The District did not adjust its claims liability by \$664,441 per the most recent actuarial study performed on the District's self-insured workers' compensation program.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of our review of the District's internal service activities and the associated self-insured workers' compensation program. Specifically, our review of the District's most recent actuarial report revealed that the claims liability related to workers' compensation program decreased the adjustment was not recorded by the District.

Effect

Given the condition and applying the criteria or the specific requirement identified above, the claims liability in the District's internal service fund (Fund 67) was overstated by \$664,441, which resulted in understatement of internal service fund balance by the same amount.

Cause

The cause of the condition identified appears to be due to an inadequate review process related to the preparation of the District's year-end financial statements, specifically a review of the adjustment to the projected claims liability based on the actuarial report.

Recommendation

The district should ensure that adjustment to the projected claims liability amount from the actuarial report is reviewed by an independent person with the required knowledge during the District's annual year-end closing process.

Repeat Finding

No.

Current Status

Implemented.

State Compliance Findings

2021-002 70000 – Instructional Materials

Criteria or Specific Requirements

Pursuant to *Education Code 60119*, the District is required to hold a public hearing regarding the sufficiency of textbooks or other instructional materials on or before eighth week from the first day pupils attended school for that year.

Condition

The District was found to be out of compliance with regard to when the public hearing for instructional materials was held. The District held the hearing on October 27, 2020, which was not within the first eight weeks of the start of school.

Questioned Costs

There were no questioned costs associated with this condition.

Context

The condition was identified through inquiry with District personnel and also through review of board meeting minutes and board resolutions.

Effect

A public hearing, as required by Education code 60119, was not held within eight weeks from the first day of the school year.

Cause

No specific cause was identified other than an oversight.

Repeat Finding

No.

Recommendation

The District should make every effort to hold the public hearing before eight weeks prior to the start of school. The District should designate a management employee with the responsibility for making sure the public hearing is identified on the board agenda before the eight weeks have passed.

Current Status

Implemented.

2021-003 40000 – State Compliance

Criteria or Specific Requirements

California Education Code Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data Systems (CalPads).

Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of education was inaccurate. It appears that the District inaccurately reported 1,700 students as having a designation of free or reduced on the “1.18 – FRPM/English Learner/Foster Youth – Student List” report.

Questioned Costs

Using the audit penalty calculator published by the California Department of Education, the calculated questioned cost was determined to be \$950,960. However, the District is a locally funded (property tax funded) District and as a result, there would be no impact on current year’s revenues.

Context

The condition was identified through inquiry with District personnel. Upon further inquiry and examination of District records, we noted the District imported free and reduced data to CalPads from its system before the first 30 days of school had passed. The students retain their prior year free and reduced status for the first 30 days of the school, so the import to CalPads included 1,700 students who were incorrectly designated as having free or reduced status on the “1.18 – FRPM/English Learner/Foster Youth – Student List” report.

Effect

As a result of our testing, it appears that the District did not properly update the 1.18 – FRPM/English Learner/Foster Youth – Student List” CalPads report to align the reporting with the most current free and reduced eligibility information from the District’s Nutrition Services Department. The following schedule identified the District-wide exceptions:

	<u>Enrollment Count</u>	<u>Certified Total Unduplicated Count</u>	<u>Adjustment Based on Eligibility FRPM</u>	<u>Adjusted Total Unduplicated Count</u>
Total District-Wide	<u>18,559</u>	<u>9,164</u>	<u>(1,700)</u>	<u>7,464</u>

Cause

The primary cause appears to originate from District collecting free and reduced data before the first 30 days of the school had passed. This resulted in students carrying forward their prior year status which resulted in inaccurate reporting.

Repeat Finding

No.

Recommendation

The District should emphasize the importance of completing Form 1.18 accurately, which includes ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CalPads calendar dates to ensure that appropriate and necessary measures are taking place to ensure CalPads information is being updated.

Current Status

Implemented - The cause of this finding has been addressed and was corrected in 2021-2022. An unrelated issue with the count is addressed in finding 2022-004.



Management
Newport-Mesa Unified School District
Costa Mesa, California

In planning and performing our audit of the financial statements of Newport-Mesa Unified School District (the District) for the year ended June 30, 2022, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated February 24, 2023, on the government-wide financial statements of the District.

Associated Student Body (ASB)

Ensign Intermediate School

Observations

1. Based on the review of the cash receipting procedures, it was noted that all 11 deposits tested were not deposited in a timely manner. The delay in deposits ranged from approximately 16 to 79 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Based on the review of the cash disbursement procedures, two of 20 disbursements tested had invoices/receipts that were dated prior to the approval date in the student council minutes and one of the 20 disbursements had expenditures that exceeded the approved amount in the student council minutes.
3. Based on the review of the bank reconciliation procedures, it was noted that the bank reconciliation tested for the month of November 2021 was not prepared within a timely manner. The bank reconciliation was prepared on March 16, 2022.

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

3. Bank reconciliations should be completed and reviewed timely. The review process will help identify any errors that may have otherwise gone unidentified.

Response

1. The ASB Accounting Technician position was vacant for several months and support staff did their best to handle the deposits until it was filled. The position has since been filled and trained on the appropriate processes. Administrative staff has also attended training and will be more closely involved.

Costa Mesa High School

Observation

1. Based on the review of the cash receipting procedures, it was noted that one of the 19 deposits tested was not deposited in a timely manner. The delay in deposit was 16 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Response

1. Deposits are brought to the District office weekly at a minimum and held in a secure safe. The deposits are delivered to the bank via armored car service which comes once a week. The bank records the deposits approximately five days after pick-up, so a 16-day delay is not out of the ordinary, especially if there is a holiday.

Newport Harbor High School

Observation

1. Based on the review of the disbursement procedures it was noted that five of 25 disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

Recommendation

1. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

Observations

1. Based on the review of the cash receipting procedures, it was noted that 15 of 36 deposits tested were not deposited in a timely manner. The delay in deposits ranged from approximately eight to 15 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Based on the review of the disbursement procedures it was noted that three of 25 disbursements tested were not approved prior to transactions taking place and were lacking adequate supporting documentation, such as invoices and purchase request forms. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. Additionally, adequate supporting documentation should be maintained for all ASB disbursements. This will identify and prevent potential misappropriation of ASB funds.

Response

1. Deposits are brought to the District office weekly at a minimum and held in a secure safe. The deposits are delivered to the bank via armored car service which comes once a week. The bank records the deposits approximately five days after pick-up, so a 16-day delay is not out of the ordinary, especially if there is a holiday.
2. The yearbook contract was not sent for district approval due to COVID-19. The contract was approved with three signatures and the invoice was paid after being signed by two administrators. The 2021-2022 yearbook contract was district approved. The second expense noted was for a reorder of PE clothing. The funds are held in a separate funding line from ASB funds specifically for PE clothing income. In the essence of time due to supply shortages, a purchase request was not made. The invoice was reviewed and paid in full only after being signed by two administrators. The third noted expense was for the dance class instructor. The funds used were dance class donations held in a funding line separate from ASB funds. The funds are to be used at the discretion of the department head to enhance the classroom for the benefit of the students. The funds are unrelated to the ASB, therefore a purchase request to ASB was not made. The department head approved of the purchase and the reimbursement check and invoices were reviewed and signed by two administrators.

Purchase requests will be required going forward.

Estancia High School

Observation

1. Based on the review of the cash receipting procedures, it was noted that three of 25 deposits tested were not deposited in a timely manner. The delay in deposits ranged from approximately 26 to 68 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Response

1. Deposits at the school sites are brought to the District office on a weekly basis and held in a secure safe. The ASB Accounting Technician commonly receives checks from school groups or staff that are dated much earlier than when they are turned over to the ASB, but they are deposited the same week they are received. Staff will be reminded to submit checks in a timely fashion.

We will review the status of the current year comments during our next audit engagement.

Eide Bailly LLP

Rancho Cucamonga, California
February 24, 2023



February 24, 2023

To the Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

We have audited the financial statements of Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2022, and have issued our report thereon dated February 24, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated June 1, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the District complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the District's major federal program compliance, is to express an opinion on the compliance for each of District's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the District's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated February 24, 2023. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated February 24, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks". We have identified the following as significant risks.

- Management Override of Controls – Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the District may have the ability to override controls that the District has implemented. Management may override the District's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the District's financial performance or with the intent of concealing fraudulent transactions.
- Revenue Recognition – We identified revenue recognition as a significant risk due to financial and operational incentives for the District to overstate revenues.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Notes 1, the District changed accounting policies related to accounting for leases to adopt the provisions of GASB Statement No. 87, *Leases*. No lease liabilities or lease assets were recorded as of June 30, 2022. Therefore, the implementation of this standard did not have an effect on beginning net position. No matters have come to

our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Governmental Accounting Standards Board (GASB) requires the District to calculate, recognize, and report the costs and obligations associated with pensions in their financial statements. These amounts were all determined based on the District's proportionate share of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) estimated net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, which utilized projections of future contributions and future earnings, actuarial assumptions such as inflation, salary increases, mortality rates, and investment rate of return and discount rates in the determination of the final balances reported in the CalSTRS and CalPERS audited financial statements. The District's proportionate share was determined by calculating the District's share of contributions to the pension plan relative to the contributions of all participating entities in the plan.

Management's estimate of the Net OPEB liability, related deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on a calculation of actuarially determined contributions for health insurance benefits.

Management's estimate of the claims liability is based on a calculation of actuarially determined projected liabilities of the District's self-insured workers' compensation insurance program.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to Other Postemployment Benefits (OPEB) Liability (Note 9), Risk Management (Note 12), and Employee Retirement Systems (Note 13).

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account

balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

- Bond Interest and Redemption Non-Major Governmental Fund
 - Overstatement of FMV of cash in county \$209,114

- Internal Service Fund
 - Overstatement of cash in banks \$53,925

The effect of these uncorrected misstatements is an overstatement of current year net income and fund balance/net position of \$263,039 in the aggregate remaining funds and \$263,039 in the governmental activities.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor’s report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor’s Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor’s report.

Independent Auditor’s Report on State Compliance

Our auditor’s report on state compliance included a qualified opinion on Attendance, Independent Study, School Accountability Report Card, Unduplicated Local Control Funding Formula Pupil Counts, and Expanded Learning Opportunities Grant.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated February 24, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

This report is intended solely for the information and use of the governing board, and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Rancho Cucamonga, California